

## Essential Conditions

1. The Standards set out a range of activities of the Audit Committee and senior management viewed as essential to the internal audit service's ability to fulfil the purpose of internal auditing. These are together referred to as "essential conditions" and establish a necessary foundation for an effective dialogue between interested parties in enabling an effective internal audit service.
2. Where there is disagreement on essential conditions, the Standards require the Chief Audit Executive to document the disagreement and its impact on the internal audit service. The documentation will typically feature within the internal audit charter.
3. The Standards recognise that not all of the essential conditions will apply in all circumstances given varying regulatory circumstances that exist in different countries and sectors.

## Essential Conditions for the Audit Committee

The **Committee** will:

- Discuss with the Chief Audit Executive and senior management the appropriate authority, role, and responsibilities of internal audit.
- Approve the internal audit charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Discuss with the Chief Audit Executive and senior management any other topics that should be included in the internal audit charter to enable an effective internal audit service.
- Approve the internal audit charter.
- Review the internal audit charter with the Chief Audit Executive to consider changes affecting the Council, such as the employment of a new Chief Audit Executive or changes in the type, severity, and interdependencies of risks to the Council.
- Champion the internal audit service to enable it to fulfil the purpose of internal auditing and pursue its strategy and objectives.
- Work with senior management to enable the internal audit service's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfil the internal audit mandate.
- Support the Chief Audit Executive through regular direct communications.
- Demonstrate support by: (I) Approving the internal audit charter and internal audit plan, (II) making appropriate enquiries of senior management and the Chief Audit Executive to determine whether any restrictions on the internal audit service's scope, access, authority or resources limit the service's ability to carry out its responsibilities effectively and (III) meeting periodically with the Chief Audit Executive in sessions without senior management present.
- Establish a direct relationship with the Chief Audit Executive and the internal audit service to enable the service to fulfil its mandate.

- On request from senior management, contribute to recruiting the Chief Audit Executive.
- On request from senior management, provide information to inform performance evaluation for the Chief Audit Executive.
- Provide the Chief Audit Executive with opportunities to discuss significant and sensitive matters.
- Comment to senior management as appropriate on the scope and positioning of the Chief Audit Executive role to ensure it has the appropriate authority within the Council to fulfil the internal audit mandate and act with appropriate safeguards for its independence.
- Engage with senior management to ensure that the internal audit service is free from interference when determining its scope, performing internal audit engagements and communicating results.
- Review and comment as appropriate on the requirements necessary for the Chief Audit Executive to manage the internal audit service, as described in the Application Note.
- Communicate with the Chief Audit Executive to understand how the internal audit service is fulfilling its mandate.
- Communicate the Audit Committee's perspective on the Council's strategies, objectives, and risks to assist the Chief Audit Executive with determining internal audit priorities.
- Set expectations for the Chief Audit Executive for (I) the frequency of communications (II) the criteria for determining which issues should be escalated and (III) the process for escalation.
- Gain an understanding of the effectiveness of the Council's governance, risk management and control processes based on the results of internal audit engagements and discussions with senior management.
- Discuss with the Chief Audit Executive disagreements with senior management or other stakeholders and provide support as necessary to enable the Chief Audit Executive to perform the responsibilities outlined in the internal audit mandate.
- Discuss with the Chief Audit Executive, at least annually, the sufficiency both in numbers and capabilities, of internal audit resources to fulfil the internal audit mandate and achieve the internal audit plan.
- Consider the impact of insufficient resources on the internal audit mandate and plan.
- Discuss with the Chief Audit Executive the quality assurance and improvement program.
- Assess the effectiveness and efficiency of the internal audit service. Such an assessment includes: (I) reviewing the service's performance objectives, including its conformance with the Standards, ability to meet the internal audit mandate and progress towards completion of the internal audit plan. (II) Considering the results of the internal audit function's quality assurance improvement program.

- Discuss with the Chief Audit Executive the plans to have an external quality assessment of the internal audit service conducted by an independent, qualified assessor or assessment team.
- Collaborate with senior management and the Chief Audit Executive to determine the scope and frequency of the external quality assessment.
- Consider the responsibilities and regulatory requirements of the internal audit service and the Chief Audit Executive, as described in the internal audit charter, when defining the scope of the external quality assessment.
- Review and approve the Chief Audit Executive's plan for the performance of an external quality assessment. Such approval should cover: (I) the scope and frequency of assessments (II) the competencies and independence of the external assessor or assessment team (III) the rationale for choosing to conduct a self-assessment with independent validation instead of an external quality assessment.
- Require receipt of the complete results of the external quality assessment or self-assessment with independent validation direct from the assessor.
- Review and approve the Chief Audit Executive's action plans to address identified deficiencies and opportunities for improvement, if applicable.
- Approve a timeline for completion of the action plans and monitor the Chief Audit Executive's progress.