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General Manager
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To the General Manager,

APRA CPS 510 Governance Review – Feedback from IIA-Australia

Thank you for the opportunity to comment on the draft **Prudential Standard CPS 510 'Governance'**.

We support APRA's overall objective of strengthening governance, accountability and organisational resilience across APRA-regulated entities. In our view, the draft CPS 510 maintains the requirement for an independent internal audit function and does not materially weaken existing internal audit obligations. The review, however, presents a significant opportunity to strengthen the effectiveness, consistency and clarity of internal audit practices across the financial services sector.

In our submission, we have taken the opportunity to provide recommendations that apply to both CPS 510 and CPG 510 (the accompanying practice guide to this Standard).

Yours sincerely

[redacted]

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IIA-Australia's Recommendations

1. **Reference the IPPF including the 'Global Internal Audit Standards'**

In the current draft of CPS 510, internal audit is not defined or referenced to a framework. This allows the practice of internal audit to be open to inconsistent application that does not provide value to its organisation. Section 42-44 of CPS510 is the only section dedicated to explaining the requirements of the internal audit function, which is left undefined and unexplained. The current wording of section 42 is limited and narrow when it positions internal audit to assess "the adequacy and effectiveness of the financial and risk management frameworks of the entity". Rather, globally internal auditing is defined as:

"*An independent, objective assurance and advisory service designed to add value and improve an organisation's operations. It helps an organis*ation *accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes*."

The Global Internal Audit Standards (**GIAS**) became effective in January 2025 and establish internationally recognised requirements for professionalism, ethics, independence, quality assurance and performance of internal audit functions. Referencing these standards would:

- Promote consistency in internal audit practice across regulated entities
- Support higher quality internal audit services, by ensuring periodic internal quality assessment and 5 yearly independent external quality assessment
- Uplift the expectations of professional behaviour and ethics, which is under spotlight at the moment
- Complement rather than conflict with prudential requirements, with APRA requirements continuing to take precedence where applicable.

We understand that APRA does not typically reference external frameworks in its prudential standards, however, the GIAS are the only internationally recognised Standards for internal auditors to apply in practice.

Furthermore, those who are unfamiliar with the profession of internal auditing can mistake internal auditors for other types of auditors. It can be assumed they perform the same role, when in fact, they are separate disciplines with different roles/responsibilities[*]. We have identified that throughout CPS510, there is frequent reference to the term "auditor" only, without a clear distinction as to which auditors are being addressed.

For example, section 41(m) currently states that *the Board Audit Committee must invite the auditor and the actuary, as applicable, to the meetings of the Committee*. We would expect this to include the internal auditor being invited to all Board Audit Committee meetings, however this is not made clear. This section allows ambiguity compared to section 45(k) which states the Risk Committee *must invite the CRO, internal auditor and actuary to attend all relevant sections if its meetings*.

A further example is contained in the Attachment B of CPS510, where the "additional fit and proper criteria for auditors and actuaries" is outlined. The type of auditor included in this section is not defined,

[*] https://www.theiia.org/globalassets/site/resources/statements-of-position/tlm_assurance_advice_support_effective_gov_en.pdf

and therefore the applicability to internal auditors is unclear. We note that the Head of Internal Audit is also considered Responsible Persons / Accountable Persons. There is a lack of detail regarding the specific fit and proper requirements that apply to internal auditors, which should be amended.

When referring to the requirements of RSE auditors, financial auditors, or internal auditors in CPS510, we ask that APRA should ensures this is explicitly stated in each requirement consistently so that all roles and responsibilities are clear.

The **professional behaviour** expectations of an internal auditor are outlined in Domain II of the GIAS. This includes attributes of integrity, objectivity, competency, due professional care and confidentiality. It is not only an expectation of the GIAS to meet these requirements, it is also outlined in the IIA-Australia Code of Conduct[†] for members. We note that CPS520 'Fit and Proper' provides specific requirements for professionals such as actuaries to be *a Fellow or Accredited Member of the Institute of Actuaries of Australia (section 35e)*. If the same level of rigour was applied to the internal auditors of APRA regulated entities, membership of IIA-Australia would elevate their fit and proper standing by bringing them within the scope of the IIA-Australia Code of Conduct and disciplinary processes.

IIA-Australia recommends that

- APRA explicitly recognise the International Professional Practices Framework (IPPF) including the 'Global Internal Audit Standards' (GIAS) within CPS 510. At a minimum, the GIAS be reflected in the application guidance developed alongside CPS 510 (such as CPG 510).
- The definition of internal audit is included in CPS 510 (section 42), CPS 001 and relevant the application guidance. Internal auditing is an independent, objective assurance and advisory service designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.
- APRA makes it explicitly clear where/when it is referring to external auditors or internal auditors in the text of CPS510. The term "auditor" is too generic to distinguish between the different professions/disciplines.
- APRA outlines the additional fit and proper criteria specific to internal auditors. This criterion can be adopted from Domain II of the GIAS which outlines the Ethics and Professionalism requirements of an internal auditor, with consideration given to the value of membership with IIA-Australia to further re-enforce fit and proper behaviour.

2. Clarify Acceptable Internal Audit Resourcing Models

The GIAS outline that there are different approaches to **resourcing an internal audit function**. IIA-Australia's Chief Audit Executive Survey completed in March 2025 identified that most commonly, functions utilise a combination of in-house staff and service providers to gain access to specialist expertise to review complex areas. This is known as a "co-sourced model" for internal audit, where the Chief Audit Executive remains an in-house employee.

The GIAS also allow the Chief Audit Executive role to be outsourced to a service provider (they must be a specific individual). The **Chief Audit Executive (CAE)** is defined as:

[†] Code of Conduct - Institute of Internal Auditors Australia

The leadership role responsible for effectively managing all aspects of the internal audit function and ensuring the quality performance of internal audit services in accordance with Global Internal Audit Standards. The specific job title and/or responsibilities may vary across organisations.

The CAE is commonly known as the Head of Internal Audit across the financial services industry (this is the title applied in CPS 510).

With the resourcing options available to the internal audit function, it is important that entities understand the implications of these models – particularly as they relate to financial services compliance obligations. For example:

- A CAE that is engaged directly from a service provider retains the responsibilities contained in the **Financial Accountability Regime** (**FAR)** (see section 4 below).
- Engaging a service provider to provide internal audit services can result in their classification as a **Material Service Provider** within the scope of CPS230 'Operational Risk Management'. As internal audit has a role within CPS230 to provide assurance (Clause 61), this creates a scenario where the internal audit function could be assessing its own work. IIA-Aus is not commenting on a preference for a particular model, only that a regulated entity's Audit Committee needs to be aware of this potential conflict if it adopts a fully outsourced model, and have a process to resolve this inherent self-review risk, such as a periodic independent review of this requirement.

We recommend that APRA outlines the benefits and risks of the various internal audit resourcing models in their accompanying guidance to CPS510. Please see the attached IIA-Australia Factsheets outlining the various resourcing models for APRA's information.

3. Clarify Internal Audit Reporting Relationships

It is critically important for the Head of Internal Audit/CAE to have appropriate reporting relationships that maintain their organisational independence. For instance, it is essential that:

- The CAE reports **functionally** to the Audit Committee.
- The CAE reports **administratively** to the Chief Executive. Where they do not report directly to the Chief Executive, they retain a right of access to the Chief Executive.
- The relationships and reporting lines are documented in the **Internal Audit Charter** to formalise and clarify the standing of the internal audit function within the entity.

We believe that CPS 510 should make these requirements explicitly clear, and have recommended wording below in blue for the following paragraphs:

41 (j). ensure the internal auditor has a functional reporting line and unfettered access to the Board Audit Committee;

43. The internal audit function must, at all times, have unfettered access to the regulated entity's business lines and support functions. The organisational position, reporting relationships and access of internal audit must be documented in the internal audit charter and approved by the Board Audit Committee.

Additionally we recommend that footnote 14 of CPS 510 states:

> The Head of Internal Audit is the leadership role responsible for effectively managing all aspects of the internal audit function and ensuring the quality performance of internal audit services in accordance with professional Standards. They are also known as the Chief Audit Executive.

The definition should also be included in the defined terms of CPS001. This is important to bring alignment between the terminology and requirements contained within CPS510 and the GIAS to support the independence of the internal audit function.

4. **Include the Chief Audit Executive as a Responsible Person**

IIA-Australia recommends that the Chief Audit Executive/Head of Internal Audit be explicitly included within the definition of a **Responsible Person**. Particularly as other key positions such as the Chief Risk Officer (CRO) have been specified.

This would:

- Remove ambiguity in application of regarding fit and proper obligations to the Head of Internal Audit.
- Align CPS 510 with the Financial Accountability Regime (FAR), where the Head of Internal Audit is recognised as an Accountable Person.
- Reflect the significance of their role in safeguarding governance, risk management and internal control effectiveness.

It is our understanding following discussion with APRA in August 2026 that the Head of Internal Audit, *even if they are an outsourced individual*, are to hold the responsibilities of a Responsible Person and therefore are considered an Accountable Person under the FAR.

5. **Extend Available Guidance for Internal Auditing**

The guidance contained in supporting materials from APRA, such as HPG 510 Governance, is critical to support the industry to apply the requirements of the Prudential Standards. At the moment, the guidance pertaining to internal audit is minimal, when there is plenty of reference material available to support effective internal audit practice.

As outlined in Recommendation 1 – reference to the International Professional Practices Framework (IPPF) including the 'Global Internal Audit Standards' (GIAS) is critical and at a minimum, this Framework should be referenced in to set the baseline expectation regarding internal audit practice.

It is critical that the internal audit function contains the following:

- The **mandate** of internal audit (the authority, role, and responsibilities of the internal audit function) is authorised by the Board Audit Committee and contained in the internal audit charter.
- The **internal audit charter** outlines the internal audit function's organisational position and reporting relationships, types of services, safeguards to objectivity and independence, timing and nature of communications with the Board Audit Committee and quality assurance processes.
- The Chief Audit Executive/Head of Internal Audit must develop, implement, and maintain a **quality assurance and improvement program** that covers all aspects of the internal audit function. This includes an external quality assessment every 5 years.

Additionally, IIA-Australia has led the movement towards improved internal audit practice through the *IIA-Australia Financial Services Better Practice Guide*.

The Guide provides practical, industry-specific guidance on establishing and maintaining effective internal audit functions within APRA-regulated entities, including governance arrangements, independence, reporting lines, resourcing models, audit committee engagement and quality assurance practices. Referencing this established industry guide would support consistent interpretation and application of CPS 510 requirements across the sector. This guide is currently being updated to reflect the requirements of the GIAS, and will take into account perspectives from internal audit functions across the sector.

Furthermore, there are some clauses within CPS510 that require additional explanation in the supporting guide. For example – clause 44:

44) If a regulated entity does not believe it is necessary to have a dedicated internal audit function, it may propose alternative arrangements to APRA. A proposal for alternative arrangements must set out the details of and reasons for the proposed alternative arrangement. APRA may approve alternative arrangements for the regulated entity if satisfied that those arrangements will, in APRA's opinion, achieve the objectives of this Prudential Standard

APRA could outline what the proposed alternative arrangements are to organisations. It is unclear if the outsourcing of the internal audit function is within scope of this section , and whether approval from APRA is required in this case. It would be helpful for APRA to provide further guidance on this.

6. Non-Executive Tenure Limits Proposed Exceed Expectations

We note that the draft of CPS 510 states that:

59. A non-executive director of a locally incorporated regulated entity must not be a non-executive director of that entity or its successor for more than 12 years in total.

Also, that APRA proposes that boards can approve an extension of up to 12 months in limited circumstances and must notify APRA where this is pursued.

The initial governance review held by APRA in 2025 proposed a maximum of a 10-year period, which we commended. At IIA-Australia, we have put in place a maximum board tenure period for each director of 9 years, typically achieved through three consecutive 3-year terms. To reduce the risks associated with extended terms of tenure by directors, we recommend that:

- APRA adopt the original 10-year director tenure limit proposed, and
- Apply the extension approval process to allow directors in certain circumstances to reach a tenure of 12 years.

Conclusion

In conclusion, IIA-Australia supports APRA's objective of strengthening governance across regulated entities and considers the CPS 510 review an important opportunity to improve clarity, consistency and effectiveness in the application of internal audit requirements. We recommend that APRA expressly:

- Recognise the IPPF including the 'Global Internal Audit Standards'
- Clearly distinguish internal auditors from other audit roles
- Clarify acceptable internal audit resourcing models and reporting relationships
- Confirm the Head of Internal Audit/Chief Audit Executive as a Responsible Person,
- Expand supporting guidance, particularly regarding internal audit, to assist entities in applying the Prudential Standards in practice
- We also encourage APRA to reconsider the proposed non-executive director tenure limit so that it better supports board renewal, independence and good governance.

Taken together, these changes would enhance CPS 510, promote stronger and more consistent internal audit practice, and support the governance practices of APRA-regulated entities.