

## Dear Q&A

**In government, the chief audit executive (head of internal audit) may be a senior executive but not be sufficiently senior to report directly to the organisation head (secretary, director-general, etc). How does this affect internal audit independence?**

### Answer

Good practice arrangements for chief audit executive (internal audit) reporting are:

- › Functionally for operations to the audit committee through the chair.
- › Administratively to the chief executive officer.

Functional reporting generally involves the audit committee:

- › Reviewing and approving the internal audit charter.
- › Approving decisions regarding appointment and removal of the chief audit executive.
- › Reviewing and approving the strategic internal audit plan.
- › Reviewing and approving the annual internal audit plan.
- › Approving any changes to the annual internal audit plan.
- › Reviewing reports on the results of internal audit engagements, audit-related activities, audit team capability, audit performance and other important matters.
- › Monitoring compliance with standards, together with quality and improvement arrangements.
- › Meeting privately with the chief audit executive regularly without the chief executive officer or other management present.
- › Making enquiries of the chief audit executive to determine any scope or budget limitations that may impede the execution of internal audit responsibilities.

Administrative reporting to the chief executive officer generally includes:

- › Internal audit resources and annual budget.
- › Provision of corporate services to internal audit including office accommodation, computers and equipment.
- › Human resource administration.

Many organisations, particularly in government, have a hierarchy problem in that it is considered inappropriate for one job (chief audit executive) to step outside the structural job hierarchy. Ideally the chief audit executive heading up the internal audit function should report administratively to the chief executive officer. This occurs in some government organisations even when the chief audit executive is not on a job level that is next down from the chief executive officer.

The issue is that this is about reporting and not job structure. It is quite common for the chief audit executive to be two or three levels below the chief executive officer but reporting direct to the chief executive officer for internal audit administration.

The IIA-Australia White Paper 'Internal Audit Independence Arrangements' (which can be found at: [http://iia.org.au/sf\\_docs/default-source/technical-resources/2018-whitepapers/iia-whitepaper\\_internalaudit-independence-arrangements.pdf?sfvrsn=2](http://iia.org.au/sf_docs/default-source/technical-resources/2018-whitepapers/iia-whitepaper_internalaudit-independence-arrangements.pdf?sfvrsn=2)) outlines good practice internal audit independence arrangements and also issues that can arise around internal audit independence.

Where the chief audit executive reports administratively to a senior job in the line management structure, there will often be issues around internal audit independence. Internal audit independence comes from it being outside the line management structure.