

Dear Q&A

In a public sector organisation without a board of directors, is there a problem if an internal audit charter says chief audit executive (head of internal audit) functional reporting for internal audit operations is to the audit committee through the chairperson and also the chief executive officer?

Answer

In a public sector organisation without a board of directors, the chief executive officer is ordinarily charged with overall governance of the organisation. This means that in such an organisation, the chief executive has all the duties of a board.

Emphasising this is the fact that in many jurisdictions the term ‘accountable authority’ is used to refer to the entity ultimately accountable for an organisation. Sometimes this term refers to a board or other collective entity, and sometimes it refers to a chief executive officer. The same responsibilities apply in either case.

The chief executive officer has two roles – governance and management. An audit committee is established by the accountable authority. An audit committee specifically does not (or should not) have management authority but are advisers to the accountable authority in the accountable authority governance role. This is exactly the same way as it would be if the accountable authority was a board.

When the chief audit executive also reports directly to the chief executive officer, they are reporting to the chief executive officer in their management role. While there is nothing to stop the chief executive officer bypassing advice of the audit committee and directing functional aspects of the internal audit program, a chief executive officer would ordinarily avoid this as it limits the information sources they have to make informed decisions. In some jurisdictions this would seem contrary to official guidance. For example, NSW Government TPP 20-08 ‘Internal Audit and Risk Management Policy for the General Government Sector’ says:

“The Accountable Authority shall establish ... Audit and Risk Committee oversight to provide advice and guidance to the Accountable Authority...”

The situation suggested is complicated and not a common method for internal audit functional reporting but could be used. Individuals who gain an accountable authority position can generally distinguish between their governance and management roles.