



Factsheet: Chief Audit Executive

What is a Chief Audit Executive?

This Factsheet discusses the role and functions of the Chief Audit Executive (CAE). The 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA) defines the Chief Audit Executive as:

Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and / or responsibilities of the chief audit executive may vary across organisations.

Role of the Chief Audit Executive

The governing body of an organisation is ultimately responsible for an organisation's governance. In a company, this will be the board of directors. In the public sector where there is not a board of directors, governance arrangements are implemented by the head of the organisation such as the secretary, director-general or chief executive.

While expertise may be engaged to assist in governance of an organisation, accountability remains with the board / governing body.

Part of this responsibility is to maintain an effective internal audit program which can be delivered in various ways:

- › **In-house:** Provided exclusively or predominately by in-house staff or managed in-house by an employee of the organisation.
- › **Co-sourced:** Conducted by a combination of in-house staff and a sole service provider or a panel of service providers, and managed in-house by an employee of the organisation.
- › **Outsourced with in-house management:** Provided by a sole service provider or a panel of service providers contracted to the organisation for this purpose, with internal audit actively managed in-house by an employee with knowledge and experience of internal auditing.
- › **Outsourced:** Conducted by service providers contracted to the organisation, with the service provider also managing the internal audit function. Management of the service

provider's contract is conducted in-house by an employee of the organisation who is unlikely to have knowledge and experience of internal auditing

The board / governing body may elect to engage external expertise to deliver internal audit services, but a service provider cannot take on the responsibility of CAE. An organisation must appoint an internal officer of sufficient status to provide strategic guidance to the internal audit activity.

This description allows that the CAE need not be a specialist internal auditor, but they must have direct access to resources who are. The CAE is permitted by the Internal Audit Standards to have other responsibilities provided appropriate safeguards are in place:

Standard 1112 'Chief Audit Executive Roles Beyond Internal Auditing'

Where the chief audit executive has or is expected to have roles and / or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

The Internal Audit Standards also make it clear that a service provider cannot take on the role of CAE:

Standard 2070 'External Service Provider and Organisational Responsibility for Internal Auditing'

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

An organisation that fails to appoint a senior officer to fulfill the role of the CAE is not operating in compliance with the Internal Audit Standards.

Functions of the Chief Audit Executive

The Internal Audit Standards assign a number of specific responsibilities to the CAE which represent decisions and actions that are internal to the organisation:

- › Communicate and interact directly with the board / governing body.
- › Obtain competent advice and assistance to supply the knowledge, skills or other competencies needed to perform internal audit engagements.

- › Develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.
- › Communicate results of the quality assurance and improvement program to senior management and the board / governing body.
- › Effectively manage the internal audit activity to ensure it adds value to the organisation.
- › Establish a risk-based plan to determine the priorities of the internal audit activity, consistent with organisational goals.
- › Consider accepting proposed consulting (advisory) engagements based on the engagement's potential to improve management of risks, add value, and improve organisational operations.
- › Include accepted consulting (advisory) engagements in the internal audit plan.
- › Communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board / governing body for review and approval.
- › Communicate the impact of any internal audit resource limitations to senior management and the board / governing body.
- › Ensure internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
- › Establish policies and procedures to guide the internal audit activity.
- › Share information, co-ordinate activities, and consider relying upon the work of other organisation assurance / external assurance / consulting providers to ensure proper coverage and minimise duplication of efforts.
- › Report periodically to senior management and the board / governing body on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan, and on its conformance with the IIA Code of Ethics and the Internal Audit Standards.
- › Control access to engagement records.
- › Develop retention requirements for engagement records.
- › Communicate engagement results to appropriate parties – parties who can ensure the results are given due consideration.
- › Establish and maintain a system to monitor the disposition of results communicated to management.
- › Communicate with senior management and the board / governing body if the CAE concludes the organisation has left an unacceptable risk untreated.

In fulfilling these functions, the CAE will engage directly with senior management and requires the support of a vigilant audit committee.

Helpful references

'International Professional Practices Framework'. IIA–Global
'Internal Audit in Australia – second edition', IIA–Australia

Acknowledgement

The content of this factsheet has been informed by information provided by Michael Parkinson in Adelaide, Australia.