

Dear Q&A

What are good practice reporting arrangements for internal audit to have effective independence from management?

Answer

All internal audit staff and service providers should report to the chief audit executive (head of internal audit), who for greatest independence should report:

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

Functional reporting involves the audit committee:

- › Reviewing and approving the internal audit charter.
- › Approving decisions regarding appointment and removal of the chief audit executive, including remuneration.
- › Assessing performance of the chief audit executive.
- › Reviewing and approving the internal audit plan, and any changes to the plan.
- › Reviewing reports on the results of audits, 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 at least once a year without the chief executive officer or other management present, though many audit committees do this more frequently.
- › 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 includes:

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

The chief audit executive should meet regularly with the chief executive officer, with meetings scheduled to ensure they are in calendars and do occur.

Right of direct access by the chief audit executive to the chief executive officer should be preserved for any time the chief audit executive believes it to be warranted.

These arrangements should be written into the internal audit charter and approved at the highest level.