

Frequently Asked Questions

Briefings from the Internal Audit Standards Advisory Board

The status of the CAE¹ and their requirement for access to the leadership team and other key stakeholders

High quality internal audit is an essential component of public sector governance, supporting strong public financial management in public sector organisations. The chief audit executive (CAE) occupies a critical position in the organisation, helping it to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and playing a key role in promoting good corporate governance. This applies whether internal audit is provided as an in-house service or through an external provider or as a shared service. It also applies in cases where the CAE post is combined with wider roles.

Why do the PSIAS set out requirements for the status and access of the CAE?

In order for the internal audit function to be effective, it is essential that it has sufficient status within the organisation, and a crucial aspect of this is the status accorded to the chief audit executive (CAE). This is in turn linked to the extent and nature of the CAE's access to and engagement with the leadership team, the audit committee and other key stakeholders.

The CAE needs to have these, so that in line with the Core Principles of the PSIAS the internal audit function

- is objective and free from undue influence (independent)
- is appropriately positioned and adequately resourced

These principles are reinforced in the Public Sector Requirement attached to PSIAS 1110 which states that:

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

All of these are necessary in order for the CAE to

- secure sufficient staff and other resources;
- respond effectively to inappropriate restrictions on the internal audit activity; and
- allow internal audit to communicate difficult messages when appropriate.

Where does the responsibility for the status and access of the CAE reside?

The responsibility (and in some cases a statutory requirement) for organisations to have an effective internal audit function lies with the organisation, and is thus the responsibility of the leadership team.

¹ The term chief audit executive (CAE) reflects the terminology used in the UK Public Sector Internal Auditing Standards (PSIAS). Other terms such as Head of Internal Audit (HIA) or Chief Internal Auditor are common job titles used in the UK.

The chief audit executive can only operate within the parameters set by the leadership team. While there are a range of competencies and behaviours the CAE is expected to bring to their role, and these include being a persuasive advocate for the internal audit activity, they do not formally confer status or access.

How can CAEs best communicate this to the leadership team and other stakeholders?

The chief audit executive should seek to achieve a balance between being clear that effective internal audit is a mandatory requirement, while also persuasively explaining how it is beneficial to the organisation. And that in order for the internal audit function to be effective, its most senior representative and manager must be accorded sufficient status and access.

It may be helpful to refer to publications which provide information on the role of the CAE.

CIPFA has issued a statement on *The Role of the Head of Internal Audit in Public Service Organisations*. This makes it clear how the organisation (leadership team) needs to play its part, sets out the requirements of the role, and reflects on the qualities required of the individual who fills that role.

The statement is principally aimed at stakeholders in the internal audit process other than the internal audit function, including chief executives, chief finance officers, and audit committees.

The statement sets out five principles which must be followed in order that the head of internal audit can effectively discharge their responsibilities, as set out below.

The head of internal audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

- 1 objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence based opinion on all aspects of governance, risk management and internal control
- 2 championing best practice in governance and commenting on responses to emerging risks and proposed developments.

To perform this role the head of internal audit must:

- 3 be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee
- 4 lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively
- 5 be professionally qualified and suitably experienced.

While Principle 3 above is particularly relevant to issues around status and access, CAEs may find it helpful to promote all five principles above, to make it clear what it is the CAE is required to do, before reflecting on the arrangement that must be in place for this to be done effectively. The full CIPFA statement can be obtained online at www.cipfa.org/policy-and-guidance/reports/the-role-of-the-head-of-internal-audit. While not specifically framed for public sector organisations, the joint CIIA/Institute of Directors publication *Harnessing The Power of Internal Audit* may also be helpful www.iaa.org.uk/media/1690100/harnessing-the-power-of-internal-audit-report.pdf