Governance Structures
Level 2 – Infrastructure
Reporting Relationships Established

Purpose — To establish formal reporting relationships (administrative and functional\(^1\)) for the IA activity.

Essential Activities
- Develop an internal audit charter or other document that formally defines the purpose, authority, and responsibility of the IA activity.
- Ensure that senior management and/or the board (governing body), if applicable, formally approves the charter.
- Adopt a mission and/or vision statement for the IA activity.
- Communicate the purpose, authority, and responsibility of the IA activity throughout the organization.
- Ensure that the CAE reports administratively and functionally to a level within the organization that allows the IA activity to fulfill its responsibilities.
- Review and update the charter on a regular basis and obtain senior management and/or board approval.

Outputs
- The IA activity has a defined charter.
- The administrative and functional reporting relationships for the IA activity have been formally established.

Outcomes
- The IA activity has a formal mandate.
- The reporting relationship/organizational placement of the IA activity is sufficient to prevent the organization from interfering with internal audit's ability to determine its scope, perform its work, and communicate its results.
- The documented purpose, authority, and responsibility define the role of internal auditing and provide a basis for management and/or the board (governing body) to evaluate the operations of the IA activity.

Institutionalizing Practice Examples
- Visible commitment and support through senior management action to establish an IA activity and identify formal reporting relationships.
- Legislation providing a legal basis for internal auditing.
- Formally approved internal audit charter.
- Formal and approved internal audit organization structure.
- Communication strategy to educate and promote the importance of internal auditing.

\(^1\)The functional reporting line for the IA activity is the ultimate source of its independence and authority. As such, The IIA recommends that the CAE report functionally to the audit committee, board of directors, or other appropriate governing body. Administrative reporting is the reporting relationship within the organization’s management structure that facilitates the day-to-day operations of the IA activity. The Standards stress the importance of the CAE reporting to an individual with sufficient authority to promote the independence of the IA activity, and to ensure broad audit coverage, due consideration of internal audit results, and appropriate responses to those results.