

ROLE OF THE HEAD OF INTERNAL AUDIT IN LOCAL GOVERNMENT



REPORT OF THE TREASURER

For Information

1. PURPOSE OF REPORT

- 1.1 To inform Members of the CIPFA statement – “The Role of the Head of Internal Audit in Local Government”, and to demonstrate how the CFA complies with this guidance. Although the guidance specifically mentions Local Government the principles detailed apply to the CFA and therefore it is considered best practice to outline our compliance.

2. RECOMMENDATION

- 2.1 That Members note that I have reviewed the CIPFA statement – “The Role of the Head of Internal Audit in Local Government” and can advise Members that the CFA complies with these requirements as detailed in Appendix A.

3. BACKGROUND

- 3.1 The Statement describes the role of the Head of Internal Audit (HIA) in local government. CIPFA believes the HIA occupies a critical position in a local authority, helping it to achieve its objectives by giving assurance on its internal control arrangements and playing a key role in promoting good corporate governance. Local authorities need to know that they have strong arrangements for controlling their resources and for delivering their objectives. CIPFA believes that HIA's have a unique role to play here. They are senior managers whose business is objectively assessing these arrangements and the risks that authorities face and giving appropriate assurances. HIA's must also provide leadership, promoting good governance and helping authorities to address future challenges.
- 3.2 HIA's need to review the whole system of control, both financial and non-financial, and focus on the areas where assurance is most needed. The HIA also has to give an annual opinion on the adequacy and effectiveness of the control environment; this is used by Chief Fire Officer as a primary source of evidence for the Annual Governance Statement.

- 3.3 HIA's must also be able to show that they can meet the needs of stakeholders such as Chief Fire Officers and Audit Committees, adding value by helping to improve services whilst retaining their objectivity. They also need to work well with partners and other auditors. Authorities should see the Statement as best practice and use it to assess their HIA arrangements to drive up audit quality and governance arrangements.

4. THE KEY ROLE PLAYED BY THE HIA

- 4.1 Internal audit is one of the cornerstones of effective governance. The HIA is responsible for reviewing and reporting on the adequacy of the authority's control environment, including the arrangements for achieving value for money. Through the annual internal audit opinion and other reports the HIA gives assurance to the Leadership Team and others, and makes recommendations for improvement.
- 4.2 The HIA's role is a unique one, providing objective challenge and support and acting as a catalyst for positive change and continual improvement in governance in all its aspects. The role is particularly important when authorities are facing uncertain or challenging times. Fulfilling the role requires a range of personal qualities. The HIA has to win the support and trust of others, so that he/she is listened to, and the HIA's role as a critical friend means that sometimes difficult messages must be given and acted on. It is these expectations, combined with the professional, personal and leadership skills required, that have shaped the CIPFA Statement on the role of the HIA in Local Government.
- 4.3 **Primary audience**
The primary audience for this Statement is those who rely on the HIA's assurances – the Leadership Team and the Audit Committee. CIPFA recommends that they should examine their own authority against this Statement to satisfy themselves that they have effective HIA arrangements in place.
- 4.4 **Local government context**
CIPFA has drawn up a separate Statement for local government because of the statutory responsibility of specific post holders regarding internal audit and governance. In local government the 'Section 151' officer (the Chief Financial Officer or Treasurer) is a statutory post as is the Monitoring Officer (often the Head of Legal Services) and the Head of Paid Service (often the Chief Executive). The HIA needs to work well with these post holders and lines of responsibility need to be clear.
- 4.5 The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in local government and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:
- the organisation;
 - the role; and

- the individual.

For each principle the Statement sets out the governance arrangements required within an authority to ensure that HIAs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA. Summaries of personal skills and professional standards then detail the leadership skills and technical expertise authorities can expect from their HIA. These include the requirements of CIPFA and the other professional bodies' codes of ethics and professional standards to which the HIA as a qualified professional is bound. The personal skills described have been aligned with the most appropriate principle, but in many cases support other principles as well.

4.6 **Demonstrating compliance**

The Statement supports CIPFA's work to strengthen governance, risk management and internal audit across public services. It is intended to allow the Leadership Team of a local authority to benchmark its existing arrangements against a defined framework.

- 4.7 CIPFA recommends that authorities use the Statement as the framework to assess their existing arrangements and that they should report publically on compliance to demonstrate their commitment to good practice. CIPFA also proposes that authorities should report publicly where their arrangements do not conform to the compliance framework in this Statement, explaining the reasons for this, and how they achieve the same impact. CIPFA will consider how to take this forward in the context of the CIPFA/Society of Local Authority Chief Executives (SOLACE) guidance on good governance.

5. **CIPFA STATEMENT ON THE ROLE OF THE HIA IN LOCAL GOVERNMENT**

The Head of Internal Audit in a local authority plays a critical role in delivering the authority'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; and

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; and

5 – be professionally qualified and suitably experienced.

6. PROCESS FOLLOWED

- 6.1 The review is undertaken annually in line with best practice requirements. Appendix A of the report details how the Authority ensures that the requirements of the statement are met. Details of the requirements of the statement are outlined along with how the arrangements in place at the council satisfy those requirements.

**CHRIS LITTLE
TREASURER TO THE AUTHORITY**

APPENDIX A

How the Five Principles Are Met

Principle 1 – The head of internal audit (HIA) plays a critical role in delivering the organisation’s strategic objectives by 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.

Governance requirements	CFA Arrangements	Core HIA responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
Set out the responsibilities of the leadership team for internal audit	<i>Role of HIA enshrined in the Constitution and reflected in the Audit Manual.</i>	Ensure that internal audit’s work is risk-based and aligned to the organisation’s strategic objectives and will support the annual internal audit opinion	<i>Comprehensive audit planning, monitoring and review process in place in compliance with PSIAS.</i>	Give clear, professional and objective advice	<i>Leads by example in approach with Directors and other senior managers that Internal Audit function role is to help achieve organisations objectives, whilst ensuring compliance with best practice and legislative requirements.</i>
Establish an internal accountability and assurance framework including how internal audit works with other providers of assurance	<i>Role of HIA enshrined in the Constitution and reflected in the Audit Manual., Audit section compliant with PSIAS.</i>	Identify where internal audit assurance will add the most value or do most to facilitate improvement	<i>As above.</i>	Report on what is found, without fear or favour	<i>Reporting arrangements agreed with management based on a shared understanding of requirements.</i>
Set out how the framework of assurance supports the annual governance	<i>Internal Audit independently review process set up to compilation of AGS.</i>	Produce an evidence-based annual internal audit opinion on the overall adequacy and effectiveness of the	<i>As above.</i>	Demonstrate integrity to staff and others in the organisation.	<i>Relationships with key officers built up over a number of years as reflected in service level agreement.</i>

Governance requirements	CFA Arrangements	Core HIA responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
statement and identify internal audit's role within it. The HIA should not be responsible for the statement		organisation's framework of governance, risk management and control.			
Set out the responsibilities of the HIA and ensure the independence of the role is preserved. If additional responsibilities are taken on then appropriate safeguards should be put in place	<i>Role of HIA enshrined in the Constitution and reflected in the Audit Manual.</i>			Exercise sound judgement in identifying weaknesses in the organisation's control environment and a balanced view on how significant these are.	<i>Experience gained over 29 year Internal Audit career. HIA CPD tailored to requirements of the role.</i>
Ensure internal audit is independent of external audit	<i>As above</i>			Work well with others with specific responsibilities for internal control, risk management and governance including (as appropriate to the sector) the chief executive, chief legal officer, chief financial officer, audit committee, non-executive directors and elected representatives	<i>/As above.</i>
Establish clear lines of reporting of the	<i>Relationships with key officers built up over a</i>			Work positively and constructively,	<i>As above</i>

Governance requirements	CFA Arrangements	Core HIA responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
HIA to the leadership team and to the audit committee	<i>number of years and Role of HIA enshrined in the Constitution and reflected in the Audit Manual.</i>			influencing the leadership team, audit committee and others to ensure the HIA's recommendations are implemented.	
Ensure the HIA reports in their own right and that the annual internal audit opinion and report are issued in the name of the HIA	<i>Role and independence of HIA enshrined in the Constitution and reflected in the Audit Manual.</i>			Be a role model – dynamic, determined, positive and robust. They should demonstrate resilient leadership and the ability to inspire confidence and exemplify high standards of conduct.	<i>Experience gained over 29 year Internal Audit career. HIA CPD tailored to requirements of the role.</i>
Ensure the internal audit charter and plan are approved by the audit committee in accordance with the PSIAS	<i>Audit Charter and Audit Strategy agreed by members, PSIAS compliance independently reviewed.</i>				

Principle 2 – The HIA in a local authority plays a critical role in delivering the authority’s strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

Governance requirements	CFA Arrangements	Core HIA responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
Establish top level commitment to the principles of good governance, recognising its importance for achieving strategic objectives	<i>Role and independence of HIA enshrined in the Constitution and reflected in the Audit Manual.</i>	Work with others in the organisation to promote and support good governance	<i>Relationships built up over a number of years backed up by regular meetings, 1-2-1s with key officers.</i>	Provide leadership by giving practical examples of good governance that will inspire others	<i>Relationships built up over a number of years backed up by regular meetings, 1-2-1s with key officers.</i>
Set out the HIA’s role in good governance and how this fits with the role of others	<i>Role of HIA enshrined in the Constitution and reflected in the Audit Manual.</i>	Help the organisation understand the risks to good governance	<i>All aspects of governance arrangements covered in the annual Internal Audit Plan as agreed by management and the Audit and Governance Committee.</i>	Deploy effective facilitating and negotiating skills	<i>Experience gained over 29 year Internal Audit career. Professional guidance followed in relation to promoting good governance.</i>
Recognise and support the role internal audit can play in providing advice and consultancy internally	<i>Role of HIA enshrined in the Constitution and reflected in the Audit Manual.</i>	Give advice to the leadership team and others on the control arrangements and risks relating to proposed policies, programmes and projects	<i>Arrangements ensure internal audit has knowledge of all major projects, programmes and policy initiatives.</i>	Build and demonstrate commitment to supporting continuous improvement of the organisation.	As above
Ensure that the HIA has the opportunity to advise on or provide assurance on all major projects, programmes and policy initiatives	<i>Internal Audit plan encompasses partnership arrangements and processes ensure internal audit has knowledge of all major projects, programmes and</i>	Promote the highest standards of ethics and standards across the organisation based on the principles of integrity, objectivity, competence and	<i>Leads by example in approach with senior managers that Internal Audit function role is to help achieve organisations objectives, whilst ensuring compliance with best</i>		

Governance requirements	CFA Arrangements	Core HIA responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
	<i>policy initiatives.</i>	confidentiality	<i>practice and legislative requirements.</i>		
Establish clear lines of reporting to the Leadership Team and to the Audit Committee where the HIA has significant concerns.	<i>Role of HIA enshrined in the Constitution and reflected in the Audit Manual. Rights of access to key members and officers detailed.</i>	Demonstrate the benefits of good governance for effective public service delivery and how the HIA can help	As above		
Take account of the HIA's advice in new and developing systems	<i>Role of HIA enshrined in the Constitution and reflected in the Audit Manual.</i>	Offer advisory or consulting services where appropriate	<i>Role of HIA enshrined in the Constitution and reflected in the Audit Manual. Any consultancy/advisory role would be in line with these protocols.</i>		
		Give advice on risk and internal control arrangements for new and developing systems, including major projects, programmes and policy initiatives whilst maintaining safeguards over independence.	<i>Internal Audit plan encompasses partnership arrangements and processes ensure internal audit has knowledge of all major projects, programmes and policy initiatives.</i>		

Principle 3 – The HIA in a local authority must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee.

Governance requirements	CFA Arrangements	Core HIA responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
Designate a named individual as HIA in line with the principles in this Statement. The individual could be someone from another organisation where internal audit is contracted out or shared. Where this is the case then the roles of the HIA and the client manager must be clearly set out in the contract or agreement.	<i>HIA designated individual employed via detailed service level agreement with the Authority.</i>	Ensure the internal audit charter clearly establishes appropriate reporting lines that facilitate engagement with the leadership team and audit committee	<i>Protocols in place that facilitate engagement with the leadership team and audit committee.</i>	Network effectively to raise the profile and status of internal audit.	<i>Relationships built up over a number of years backed up by regular meetings, 1-2-1s with key officers.</i>
Ensure that where the HIA is an employee that they are sufficiently senior and independent within the authority's structure to allow them to carry out their role effectively and be able to provide credibly constructive	<i>As above</i>	Escalate any concerns about maintaining independence through the line manager, chief executive, audit committee and leadership team or external auditor as appropriate	<i>Role and independence of HIA enshrined in the Constitution and reflected in the Audit Manual.</i>	Adopt a flexible style, being able to collaborate and advise but also able to challenge as appropriate.	<i>Experience gained over 29 year Internal Audit career. HIA undergoes CPD tailored to requirements of the role.</i>

Governance requirements	CFA Arrangements	Core HIA responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
challenge to the Management Team.					
Engage constructively with the HIA and facilitate their role throughout the organisation	<i>As above. Regular liaison with senior management.</i>	Contribute to the review of audit committee effectiveness, advising the chair and relevant managers of any suggested improvement	<i>HIA regular attendee of Audit and Governance Committee providing advice and guidance when necessary.</i>	Build productive professional relationships both internally and externally	<i>As above</i>
Ensure the audit committee terms of reference includes oversight of internal audit including the monitoring of adherence to professional standards	<i>Audit and Governance Committee established in line with CIPFA guidelines.</i>	Consult stakeholders, including senior managers and non-executive directors/elected representatives on internal audit plans	<i>Approval and consultation process for the Internal Audit plan ensures that it adds value to the organisation. HIA responsible for facilitating this process via senior managers and the Audit and Governance Committee.</i>	Work effectively with the leadership team and audit committee, showing political awareness and sensitivity	<i>As above</i>
Ensure the HIA's reporting relationship with the audit committee and its chair as set out in the internal audit charter is applied	<i>Role of HIA enshrined in the Constitution and reflected in the Audit Manual.</i>			Be seen to be objective and independent but also pragmatic where appropriate	<i>Leads by example in approach with senior managers that Internal Audit function role is to help achieve organisations objectives, whilst ensuring compliance with best practice and legislative requirements.</i>
Ensure the organisation's governance arrangements give the HIA: – direct	<i>Role of HIA enshrined in the Constitution and reflected in the Audit Manual. Rights of access to key members and</i>			Build productive relationships both internally and externally.	<i>Relationships built up over a number of years backed up by regular meetings, 1-2-1s with key officers.</i>

Governance requirements	CFA Arrangements	Core HIA responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
access to the chief executive, other leadership team members, the audit committee and external audit; and – attendance at meetings of the leadership team and management team when the HIA considers this to be appropriate	<i>officers detailed.</i>				
Set out unfettered rights of access for internal audit to all papers and all people in the organisation, as well as appropriate access in arms-length bodies	<i>CFA Constitution details access arrangements for Internal Audit, reflected in the Audit Manual.</i>			Work effectively with the Leadership Team and Audit Committee with political awareness and sensitivity.	<i>Experience gained over 29 year Internal Audit career. HIA undergoes CPD tailored to requirements of the role. Regular 1-2-1s with senior managers in order to support development in all areas.</i>
Set out the HIA's responsibilities relating to partners including collaborations and outsourced and shared services	<i>Major ventures undertaken detail rights of access to Internal Audit for governance opinion purposes.</i>			Be seen to be objective and independent but also pragmatic where appropriate.	<i>As above</i>

Principle 4 – The HIA in a local authority must lead and direct an internal audit service that is resourced to be fit for purpose.

Governance requirements	CFA Arrangements	Core HIA Responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
Provide the HIA with the status, resources, expertise and systems necessary to perform their role effectively	<i>Role of HIA enshrined in the Constitution, Internal Audit Strategy and Charter details the resource implications and responsibilities for ensuring they are met.</i>	Lead and direct the internal audit service so that it meets the needs of the organisation and external stakeholders and fulfils professional standards	<i>Experience gained over 29 year Internal Audit career. HIA undergoes CPD tailored to requirements of the role. Regular 1-2-1s with Treasurer in order to support development in all areas.</i>	Demonstrate leadership and be an ambassador for internal audit.	<i>Relationships built up over a number of years backed up by regular meetings, 1-2-1s with key officers. HIA undergoes CPD tailored to requirements of the role i.e. CIPFA Certificate in Investigatory Practices.</i>
Ensure the audit committee contributes to a performance framework for the HIA and the internal audit service and takes action as appropriate	As above	Demonstrate how internal audit adds value to the organisation	<i>Regular reports to the Audit and Governance Committee.</i>	Create, communicate and implement a vision for the internal audit service.	<i>HIA has a clear understanding of these issues and is committed to continuous improvements. These issues addressed through performance appraisal.</i>
Ensure an external review of internal audit quality is carried out at least once every five years in accordance with PSIAS	<i>PSIAS compliance monitored vis senior management. Constant review by Treasurer via performance monitoring and appraisal system.</i>	Determine the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit's objectives	<i>HIA has a clear understanding of these issues and is committed to continuous improvements.</i>	Create a customer focused internal audit service	<i>HIA has a clear understanding of these issues and is committed to continuous improvements.</i>
Ensure the audit committee provides support for and	As above	Inform the leadership team and audit committee as soon as	<i>Protocols in place to be followed with Treasurer if this situation occurs.</i>	Establish an open culture, built on effective coaching and a constructive	<i>HIA mentors audit staff undertaking regular team meetings to</i>

Governance requirements	CFA Arrangements	Core HIA Responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
participates in the quality assurance and improvement programme as set out in PSIAS.		they become aware of insufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given		approach.	<i>facilitate discussion. Role on various working groups ensures topics are discussed and disseminated.</i>
		Ensuring that the professional and personal training needs for staff are assessed and seeing that these needs are met.	<i>Professional guidance implemented in respect of training needs and development issues are addressed.</i>	Promote effective communication within internal audit, across the broader organisation and with external stakeholders.	<i>HIA has a clear understanding of these issues and is committed to continuous improvements.</i>
		Developing succession plans and helping staff with their career progression.	<i>As above</i>	Manage and coach staff effectively	<i>CIPFA "Excellent Auditor Framework" implemented within section for all training and development needs.</i>
		Establishing a quality assurance and improvement programme that includes: ensuring that professional internal audit standards are complied with; reviewing the performance of internal audit and ensuring that the service provided is in line with the expectations and	<i>CIPFA guidance in relation to continuous improvement followed.</i>	Comply with professional standards and ethics	<i>Professional standards and ethics outlined within Audit Manual and also bound Public Sector Internal Audit Standards.</i>

Governance requirements	CFA Arrangements	Core HIA Responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
		needs of its stakeholders; providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and Audit Committee; annually reporting achievements against targets; putting in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that audit plans, work and reports are evidence based and of good quality; ensuring that any internal auditors declare any interests that they have; seeking continuous improvement in the internal audit service.			

Governance requirements	CFA Arrangements	Core HIA Responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
		Keeping up to date with developments in governance, risk management, control and internal auditing, including networking with other HIA's and learning from them, implementing improvements where appropriate.	<i>Member of Technical Information Service, CIPFA NE IA Group, North East Fraud Forum and National Anti Fraud Network in order to ensure up to date with current best practice and ideas.</i>		
				Require the highest standards of ethics and standards within internal audit based on the principles of integrity, objectivity, competence and confidentiality.	<i>As above as well as procedures for the identification and recording of conflicts of interest are detailed in the Audit Manual.</i>

Principle 5 – The HIA in a local authority must be professionally qualified and suitably experienced

Governance requirements	CFA Arrangements	Core HIA responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
Appoint a professionally qualified HIA whose core responsibilities include those set out in the PSIAS as well as under the other principles in this statement and ensure that these	<i>Service Level Agreement Job description and appointment process ensure only appropriately qualified and experienced individuals considered.</i>	Be a full member of an appropriate professional body and have an active programme for personal professional development	<i>HIA has 25 years' post qualification experience and sound understanding of public service governance arrangements and its regulatory environment.</i>	Demonstrate a range of skills including communicating, managing and influencing, as well as an understanding of IT and consultancy.	<i>HIA undergoes CPD tailored to requirements of the role as well as mentoring by Treasurer. HIA qualified with CIPFA in 1997.</i>

Governance requirements	CFA Arrangements	Core HIA responsibilities	CFA Arrangements	Personal skills and professional standards	CFA Arrangements
are properly understood throughout the organisation					
Ensure that the HIA has the skills, knowledge, experience and resources to perform effectively in the role	<i>As above, monitoring and mentoring role undertaken by Treasurer ADF in his role as Section 151 officer ensures compliance.</i>	Adhere to professional internal audit and ethical standards (and where appropriate accounting and auditing standards)	<i>As above</i>	Understand and have experience of strategic objective setting and management.	<i>HIA undergoes CPD tailored to requirements of the role as well as mentoring by Treasurer.</i>
Support continuing professional development of the HIA.	<i>HIA undergoes CPD tailored to requirements of the role as well as mentoring by Treasurer.</i>			Understand the internal audit and regulatory environment applicable to public service organisations.	<i>HIA has 25 years' post qualification experience and sound understanding of public service governance arrangements and its regulatory environment.</i>
				Demonstrate a comprehensive understanding of governance, risk management and internal control.	<i>HIA has held a variety of position within Local Government, before appointment as HIA in 2008, including Group Auditor at HBC and Head of Audit at a district council.</i>
				Undertake appropriate development or obtain relevant experience as appropriate in order to demonstrate an understanding of the full range of the authority's activities and processes.	<i>HIA member of CIPFA for 25 years and is bound by all relevant professional and personal requirements as well as all internal training requirements.</i>

