

Agenda Item No 6(c)

DERBYSHIRE COUNTY COUNCIL

CABINET

13 February 2020

Report of the Assistant Director of Finance (Audit)

**AUDIT CHARTER, ROLE OF THE HEAD OF INTERNAL AUDIT IN PUBLIC
SERVICE ORGANISATIONS AND RESULT OF EXTERNAL ASSESSMENT OF
AUDIT SERVICES**

(Corporate Services)

1 Purpose of Report

To inform Cabinet of the review and update of the Audit Charter, which is a specific requirement of the Public Sector Internal Audit Standards (PSIAS), and recommend that Cabinet endorses the Audit Charter as Council policy.

To inform Cabinet of the update to the Chartered Institute of Public Finance and Accountancy's (Cipfa) Statement on the Role of the Head of Internal Audit in Public Service Organisations.

To inform Cabinet of the result of the external assessment of Audit Services which is a requirement of the Public Sector Internal Audit Standards.

2 Information & Analysis

Audit Charter

The Audit Charter draws together existing practice and formalizes procedures which are already embedded in the Council's governance framework (eg the provisions of Financial Regulations and Standing Orders relating to Contracts, the Anti Fraud and Anti Corruption Strategy, Fraud Response Plan, the requirements of Whistleblowing – The Confidential Reporting Code etc.) into a single reference document which embodies those requirements specified in the PSIAS.

The Charter is reviewed by the Assistant Director of Finance (Audit) in consultation with the Head of Paid Service, other appropriate officers and the Audit Committee to ensure it continues to reflect the requirements of the regulatory framework and key legislation on which it is based. The revised Charter is attached at Appendix 1.

The Audit Committee, acting in its role as "those charged with governance", has endorsed the revised Charter and the PSIAS requires that the Audit Charter is approved by Cabinet.

Role of the Head of Internal Audit in Public Service Organisations

Cipfa have recently revised its Statement on the Role of the Head of Internal Audit in Public Service Organisations which is attached to this report as Appendix 2. This document together with the PSIAS provides comprehensive guidance regarding the requirements for an effective internal audit service.

The Statement confirms that the Head of Internal Audit (HIA) occupies a critical position in any 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. The aim of the Statement is to set out the role of the HIA and to help ensure organisations engage with and support the role effectively.

The Statement is principle-based and should be relevant to all public service organisations and their HIA. It is intended to be helpful to a wide audience including leadership teams, chief executives, audit committees and other stakeholders as well as HIAs themselves.

The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them.

For each principle the Statement sets out the organisation's responsibilities to ensure the HIA is able to operate effectively and perform their core duties.

The five principles relating to the role of the HIA are:-

- 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 control;
- championing best practice in governance and commenting on responses to emerging risks and proposed developments;
- being a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee;
- lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively;
- being professionally qualified and suitably experienced.

Summaries of personal skills and professional standards detail the leadership competencies and technical expertise organisations can expect from their HIA. These include the requirements of Cipfa and the other professional bodies' codes of ethics and the PSIAS Code of Ethics to which the HIA is bound.

For each of the Statement's principles reference is made to the relevant core principles contained in the PSIAS.

External Assessment of Audit Services

The PSIAS recognise that a professional, independent and objective internal audit service is one of the key elements of good governance.

The objectives of the PSIAS are to:-

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit in the UK public sector;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations;
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The PSIAS require that external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The last review was undertaken by PricewaterhouseCoopers and the result reported to Audit Committee on 25 March 2014.

Following a procurement process the Chartered Institute of Public Finance and Accountancy's (Cipfa) consultancy service (C.Co) was selected to undertake the external assessment which took place during October and November 2019. This assessment was carried out on the basis of a self-assessment with independent external validation.

As a result of this assessment Audit Services are judged as compliant with the PSIAS overall and in each of the four areas of focus assessed. The final report is attached at Appendix 3 and has been presented to both Audit Committee and Corporate Management Team by Mr Ian Kirby of C.Co.

3 Legal Considerations

The Audit Services Unit discharges the Council's statutory responsibilities under Regulation 5 of the Accounts and Audit Regulations 2015 and significant aspects of the Director of Finance & ICT's statutory duties under Section 151, Local Government Act 1972.

4 Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, social value, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

5 Background Papers

A file held by the Assistant Director of Finance (Audit).

6 Key Decision?

No.

7 Is it necessary to waive the call-in period?

No.

8 Officer's Recommendation

That Cabinet:-

- 8.1 Note the review of the Audit Charter and approve it as Council policy;
- 8.2 Note the update to the Chartered Institute of Public Finance and Accountancy's (Cipfa) Statement on the Role of the Head of Internal Audit in Public Service Organisations;
- 8.3 Note the result of the external assessment of Audit Services confirming that the Unit complies with the PSIAS overall and in each of the four areas of focus assessed.

Carl Hardman
Assistant Director of Finance (Audit)

DERBYSHIRE COUNTY COUNCIL

AUDIT SERVICES

AUDIT CHARTER



CARL HARDMAN
Assistant Director of Finance (Audit)



Introduction

The Relevant Internal Audit Standard Setters, which includes the Chartered Institute of Public Finance and Accountancy (Cipfa) in respect of local government across the United Kingdom, adopted a common set of Public Sector Internal Audit Standards (PSIAS) supplemented by a Local Government Application Note (LGAN) with effect from the 1st April 2013; the PSIAS were subsequently updated in March 2017. The PSIAS requires the Council to adopt an Internal Audit Charter as part of the requirements of the Standards, this is fundamental to the effective delivery of internal audit within the Council.

Definitions

For the purposes of this Charter the following definitions of PSIAS terms apply at the Council:-

'Board'	The Council's Audit Committee
'Senior Management'	Executive Directors and Directors
'Chief Audit Executive'	Assistant Director of Finance (Audit)

Legislative/Regulatory Basis of Operation

The Council's statutory responsibilities under Regulation 5 of the Accounts and Audit Regulations 2015, as amplified by the PSIAS, are discharged by the Audit Services Unit. It also discharges significant aspects of the Director of Finance & ICT's statutory duties under Section 151 of the Local Government Act 1972 on his behalf. The Unit works closely with the Director of Legal and Democratic Services particularly in relation to promoting and maintaining good governance arrangements.

The Unit works in partnership with the Council's appointed auditors, Mazars, in accordance with the agreed External and Internal Audit Protocol which clarifies the working relationship between Mazars and Audit Services and seeks to formalize areas of co-operation and assistance. The role and responsibilities under the PSIAS of the Unit are further clarified and reinforced in the Council's Constitution, Financial Regulations and Standing Orders relating to Contracts, Anti Fraud and Anti Corruption Strategy, Fraud Response Plan, the requirements of the Confidential Reporting Code (Whistleblowing Policy) and the Unit's Audit Manual.

Mission of Internal Audit

The Council recognises the mission of Audit Services as set out in the PSIAS:-

To aspire to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition of Internal Audit

The Council recognises the definition of internal audit formally set out in the PSIAS:-

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Position of Audit Services within the County Council

The Council has a responsibility for ensuring that an effective system of internal control is maintained and operated in respect of the resources under its control.

The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or should be detected within a timely period.

The system of internal control is based upon a framework which embraces regular management information, Financial Regulations and Standing Orders relating to Contracts, administrative procedures (including segregation of duties), Management supervision and a structure of delegation and accountability. Managers within the Council undertake development and maintenance of the system. In particular, the system includes:

- comprehensive budgeting systems;
- the preparation and regular review of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital expenditure guidelines;
- as appropriate, formal project management disciplines;
- clearly defined and adequately documented, approved procedural and operational guidance.

The internal control framework of the Council is subject to regular review by both Management and the Council's Audit Services Unit.

The Council's Audit Services is an assurance function which provides an independent and objective opinion to the Council on its framework of governance, risk management and control. This framework is subject to regular review by the Unit who, through a structured plan of operational and financial reviews, provide Management with assistance, advice and insight on systems, processes and risks and through this work form a view on the strength of individual aspects of control and the overall control framework.

Audit Services operates in compliance with the requirements of the Accounts and Audit Regulations and the PSIAS. This requires that the Council *‘must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.’* These Regulations also require full assistance from officers and Members in the provision of access to documents and records and the supply of information and explanations to enable the proper fulfilment of those Audit responsibilities. The Unit’s work conforms with the requirements of the PSIAS, professional best practice and locally by the policies, procedures, rules and regulations established by the Council.

Audit Services’ Methodology

In assisting the Council to maintain and develop its control environment Audit Services’ staff appraise and review the:

- completeness, reliability and integrity of information, both financial and operational;
- effectiveness of systems established to ensure compliance with policies, plans, procedures, laws and regulations, e.g. control/regulatory frameworks specified by the Members and Management of the Council, and externally by statute or regulatory bodies;
- means employed by the Council to safeguard its assets and recognize risks;
- effectiveness, efficiency and economy with which resources are employed;
- management and security of the Council’s information assets including contractual arrangements with third parties;
- operations being carried out to determine whether planned objectives and goals are achieved.

The Audit Services’ Manual contains procedures and Professional Standards, the requirements of Professional Best Practice, the Quality Assurance and Improvement Programme and guidance relevant to the work of the Unit. The Manual is held electronically and is available to all members of the Unit’s staff.

Scope of Audit Services

Audit Services’ remit covers all functions and services for which the Council is responsible. It has unrestricted access to all records, personnel (both Members and officers) and physical properties necessary for the purposes of its work, however and wherever these are held, in accordance with the requirements of the PSIAS. This includes Council information which is held or managed by third parties on the Authority’s behalf.

Due to its detailed knowledge of the Council’s systems and processes, Audit Services may undertake consultancy work in addition to its primary assurance role. Examples of this may include advice, facilitation and training. The scope of any consultancy work will be agreed with Management and will only be undertaken where resources permit without impacting on the annual assurance process. In

accordance with the PSIAS, approval will be sought from the Audit Committee before any significant, unplanned consultancy work is accepted.

The Director of Finance & ICT is the designated Section 151 Officer and also has line management responsibility for the Assistant Director of Finance (Audit). The Assistant Director of Finance (Audit) has direct access, as appropriate, to:

- all levels of management, including the Head of Paid Service, Director of Finance & ICT (Section 151 Officer), Director of Legal and Democratic Services (Monitoring Officer), Executive Directors/Directors;
- the Audit Committee, all Elected Members, including the Leader and the Chair of the Council;
- all employees of the Council;
- all agents, partners, suppliers and contractors of the Council and their staff.

The Assistant Director of Finance (Audit) reports directly to the Head of Paid Service and the Audit Committee.

Planning and Performing Audit Work

The Audit Services Unit has an Internal Audit Strategy supported by an annual plan of areas to be examined. This is based upon an assessment of risks and a determination of critical areas for opinion and assurance purposes. The Plan, which is approved by the Audit Committee, is reported to Cabinet and Council and is managed by the Assistant Director of Finance (Audit) throughout the year to ensure delivery of all key aspects of work and the requirement to produce an annual internal opinion on the Council's framework of governance, risk management and control. The performance of Audit Services and the outputs from its work are reviewed on an on-going basis by the Audit Committee which receives regular reports throughout the year on progress against the Audit Plan, assurance levels and recommendations made, accepted and implemented; the format of these reports is reviewed by the Audit Committee to ensure their continued relevance.

Further reviews of Audit Services' performance are undertaken by the Head of Paid Service as part of normal management arrangements and the Director of Finance & ICT as part of the review of the effectiveness of the system of internal control. External assessments of internal audit must be carried out at least once every five years by a qualified, independent assessor or assessment team.

Audit work encompasses both operational systems and those in development and through this work Audit Services:

- assist in formulating, promoting and maintaining sound governance arrangements;
- facilitate good practice in managing risks;
- contribute to ensuring sound resource management;
- recommend improvements in control, performance and productivity;
- provide reassurance and challenge to Managers;

- encourage development of consistent policies and high standards;
- ensure the impartial investigation of irregularities and policy breaches;
- support the achievement of statutory and best practice requirements.

The Constitution gives the Audit Committee overall responsibility for internal and external audit and Audit Services produce Annual Reports to that Committee outlining future planned work and reporting on delivery of the Audit product. The latter report includes the Assistant Director of Finance (Audit)'s opinion on the level of assurance which can be drawn from the work undertaken on the Council's framework of governance, risk management and control.

The assessment of the adequacy of the control environment rests upon the work of managers within the Council. It is informed by the work of Audit Services as described above and also by the work of External Audit as communicated in their annual audit letter and other reports.

Principle 2 of the published Statement on the Role of the Head of Internal Audit (HIA) in Public Service Organisations issued by Cipfa as a best practice requirement states *'The annual HIA opinion is the most important output from the HIA and is one of the main sources of objective assurance that Chief Executives and the leadership team have for their annual governance statement'*. Audit Services' Memoranda and Reports are issued throughout the year and addressed to appropriate Senior Management including Executive Directors/Directors in accordance with the PSIAS. Audit Services routinely monitor and follow up actions taken to implement agreed recommendations.

Staff of the Audit Services Unit

The Assistant Director of Finance (Audit) must be professionally qualified and have wide experience of internal audit and management.

Audit Services must be appropriately staffed in terms of number, grade, qualification levels and experience to enable the Council's Audit Plan to be delivered effectively. Internal auditors must possess the knowledge (especially of Council activities), skills and other competencies needed to perform their individual responsibilities. Knowledge, skills and other competencies is a collective term which refers to the professional proficiency required of internal auditors to effectively discharge their professional responsibilities. Where the Assistant Director of Finance (Audit) believes that insufficient resources will impact on the provision of the annual audit opinion this will be reported to the Audit Committee.

Audit Services' staff are encouraged to demonstrate their proficiency by obtaining appropriate, relevant professional certifications and qualifications.

Code of Ethics

A Code of Ethics is a mandatory element of the PSIAS which applies to both individual auditors and to the Unit. This Code includes principles of integrity,

objectivity, confidentiality and competence, and rules of conduct attached to each of these principles.

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Accordingly, internal auditors are required to perform their work with honesty, diligence and responsibility, to exhibit the highest levels of professional objectivity, to make balanced judgements and not to be unduly influenced by their own interests, and that of others, in forming judgements.

All internal auditors in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life – the Nolan principles.

Audit Services' staff are required by the PSIAS Code of Ethics to be sufficiently independent of the activities they audit so as to ensure that they are able to make impartial and effective professional judgements and recommendations. All staff are required, on an annual basis, to complete and submit to the Assistant Director of Finance (Audit) a return identifying any potential conflicts of interests or confirming that no such conflicts of interests exist.

Independence in the Council is achieved through the organizational status of Audit Services, the objectivity of Audit staff and the Assistant Director of Finance (Audit)'s freedom to report unedited, in their own name, directly to the Head of Paid Service and the Audit Committee.

Core Principles

Audit Services, individual auditors and the internal audit activity, comply with the following principles in delivering and achieving its mission:

- demonstrates integrity;
- demonstrates competence and due professional care;
- is objective and free from undue influence (independent);
- aligns with the strategies, objectives, and risks of the Council;
- is appropriately positioned and adequately resourced;
- demonstrates quality and continuous improvement;
- communicates effectively;
- provides risk-based assurance;
- is insightful, proactive, and future-focused;
- promotes organisational improvement.

Fraud and Irregularities

The Council takes a firm and positive approach to combatting fraud and corruption whether it is attempted on or from within the Authority, and is committed to an effective Anti Fraud and Anti Corruption Strategy which is supported by a Fraud Response Plan. These interrelated procedures are designed to frustrate any attempted fraudulent or corrupt act and cover:

- culture;
- deter and prevent;
- detection and investigation;
- training.

The investigation of alleged fraud and/or corruption centres on the Audit Services Unit and the Council's Financial Regulations and Standing Orders relating to Contracts require that all cases of suspected fraud, misappropriation or misuse of money, materials or equipment, or any mismanagement of money or other assets, or any other irregularities, must be reported immediately to the Assistant Director of Finance (Audit) who will investigate all such cases. The Unit will involve the relevant Executive Director/Director as appropriate and will undertake joint investigations if necessary.

The Council also has a Confidential Reporting Code (Whistleblowing Policy) which is intended to enable individuals or organisations to disclose information about malpractice internally and to provide them with protection from subsequent victimisation, discrimination or disadvantage. This Code requires that where a concern is regarding financial irregularities or fraud then the Assistant Director of Finance (Audit) should be contacted.

Responsibilities of Management to Facilitate the Audit

All levels of Management have a role to identify key risks to their service and to ensure these risks are effectively mitigated to an adequate degree. Management is also responsible for ensuring that staff are aware of the processes and procedures required to operate the internal control systems.

Managers should assist Audit Services to discharge their duties by:

- the prompt provision of information and explanations that are sought by Audit Services' staff in the course of their work;
- providing input to the Audit Plan to ensure attention is focused on areas of greatest risk;
- providing early notification to Audit Services of plans for change, including new operational systems and processes;
- implementing agreed actions arising from Audit recommendations in a timely and effective manner;
- ensuring that all members of their staff are aware of the requirement to notify any suspicions of fraud, theft, or other irregularity, promptly to the Assistant Director of Finance (Audit) in accordance with the requirements of the Council's Financial Regulations and Standing Orders relating to Contracts. In such instances the relevant Executive Director/Director should, in consultation with the Assistant Director of Finance (Audit), take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration;
- ensuring that, in consultation with the Assistant Director of Finance (Audit), where Council services are provided under contract by an external

organisation, contractual documentation identifies the internal audit arrangements for those key systems including explicit rights of access.

Responsibilities of Audit

Under the Code of Ethics internal auditors are required to respect and contribute to the legitimate and ethical objectives of the organisation.

Internal auditors are required to continually improve their proficiency and effectiveness and the quality of their services.

In seeking to undertake their duties Audit Services will have regard to the resource requirements on Departments, respect information provided and protect its security.

Any concerns about how Audit Services are undertaking their duties should be addressed to the Director of Finance & ICT and the Head of Paid Service.

Arrangements to ensure the continuing relevance of the Audit Charter

The contents of this Charter will be reviewed by the Assistant Director of Finance (Audit) in consultation with the Head of Paid Service, other appropriate officers and the Audit Committee to ensure that it continues to reflect the requirements of the regulatory frameworks and key legislation on which it is based and will, in any event, be subject to a three yearly review on an on-going basis.

CIPFA Statement on

\ the role of the head of internal audit

in Public Service Organisations
(2019 edition)

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

Head of internal audit

The executive responsible for the organisation's internal audit service, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion. This could be someone from another organisation where internal audit is contracted out or shared with others. In PSIAS this role is referred to as the chief audit executive.

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\ introduction

The head of internal audit (HIA) occupies a critical position in any 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. The aim of this Statement is to set out the role of the HIA in public service organisations and to help ensure organisations engage with and support the role effectively.

The UK Public Sector Internal Audit Standards (PSIAS) provide clear standards for internal audit but heads of internal audit in the public services face challenges ensuring professional standards are maintained and their internal audit teams remain effective. One key reason for this is that the organisation in which they operate has a direct impact on the resources, scope and authority given to internal audit. While HIAs must step up and deliver a professional service to the best of their ability, it is important to recognise this responsibility does not lie solely with the HIA. As one of the setters of the PSIAS, CIPFA considers it essential that public service organisations properly support their internal auditors to enable them to meet the standards.

For this reason it is critical that the CIPFA statement sets out not only the responsibilities of the HIA but also those of the organisation. CIPFA champions good governance and strong public financial management in public services and believes internal audit has an essential role to play in supporting those objectives. CIPFA considers that HIAs need recognition for their contributions, together with support and encouragement. For these reasons we believe the time is right for an updated CIPFA Statement.

Many heads of internal audit have already risen to the challenges and so alongside the updated CIPFA Statement we are publishing examples of how they are putting principles into practice, providing excellent support and assurance to their organisations and clients. We hope the Statement and this resource will both inspire and support internal audit going forward.

This edition ensures there is alignment to the PSIAS 2017. It explicitly links to the Core Principles for the Professional Practice of Internal Auditing, helping to demonstrate how the HIA role supports internal audit effectiveness.

The intended audience for this statement is not just HIAs in the public services. It should be read by all those with a leadership role in public bodies and by members of audit committees. CIPFA recommends those bodies evaluate their organisational arrangements for internal audit and consider the extent to which they align to the principles. We hope it will be the basis of conversations between the HIA, the leadership team and the audit committee and that the vital role of the HIA is given its due recognition and support.

Let's create the conditions in which heads of internal audit and their teams can thrive.

Rob Whiteman
Chief Executive, CIPFA

\ status of the CIPFA Statement

The Statement is principle-based and should be relevant to all public service organisations and their HIAs. It is intended to be helpful to a wide audience including leadership teams, chief executives, audit committees and other stakeholders as well as HIAs themselves.

We believe organisations should see the Statement as best practice and use it to support their HIA arrangements and drive up audit quality and governance arrangements.

We also commend the Statement to individual internal audit professionals. It articulates the core responsibilities of the HIA, as well as the personal and professional skills that they need.

The CIPFA Statement and the Public Sector Internal Audit Standards

The Relevant Internal Audit Standard Setters (RIASS)¹ mandate the PSIAS for their respective areas of responsibility in the public services. They work together to agree standards taking advice from the Internal Audit Standards Advisory Board.

In PSIAS, as in the International Professional Practices Framework, the term chief audit executive is used to describe the role of the person responsible for managing internal audit. CIPFA has decided to use the more familiar term head of internal audit for the benefit of the wider readership of this Statement.

Statement approach and structure

The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations 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
- the individual.

For each principle the Statement sets out the organisation's responsibilities to ensure HIAs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA, consistent with PSIAS. Where responsibilities are delegated the nominated HIA retains overall accountability.

Summaries of personal skills and professional standards then detail the leadership competencies and technical expertise organisations can expect from their HIA. These include the requirements of CIPFA and the other professional bodies' codes of ethics and the PSIAS Code of Ethics to which the HIA is bound. The personal skills support all five principles and are shown together, providing a handy reference for the person specification of the HIA.

¹ The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

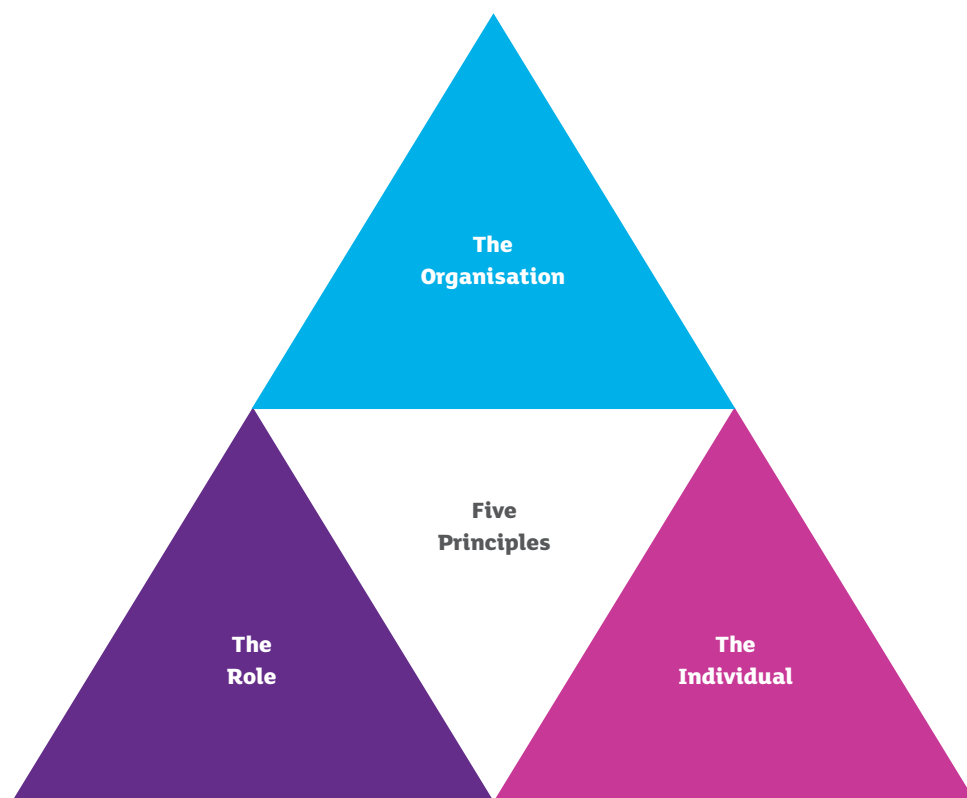
The Principles

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.



\ 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.

The UK Public Sector Internal Audit Standards (PSIAS) set out the mission of internal audit which is to 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. They also set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness.

The following core principles are of particular relevance for Principle 1 of the CIPFA Statement:

- Provides risk based assurance.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.



Organisational responsibilities

To enable the HIA to fulfil their role the leadership team should ensure they:

- set out the responsibilities of the leadership team for internal audit
- establish an internal accountability and assurance framework including how internal audit works with other providers of assurance
- set out how the framework of assurance supports the annual governance statement and identify internal audit's role within it. The HIA should not be responsible for the statement
- 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
- ensure internal audit is independent of external audit
- establish clear lines of reporting of the HIA to the leadership team and to the audit committee
- 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
- ensure the internal audit charter and plan are approved by the audit committee in accordance with the PSIAS.



Core HIA responsibilities

To fulfil Principle 1 the HIA should:

- 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
- identify where internal audit assurance will add the most value or do most to facilitate improvement
- produce an evidence-based annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

Commentary

Independence and objectivity

The leadership team is responsible for the organisation achieving its objectives and for the underlying governance arrangements and effective frameworks of risk management and internal control. The HIA's unique role is to evaluate these arrangements and provide independent assurance on their effectiveness. So it is important that the HIA is independent of operational management and is seen to provide objective views and opinions. Where the HIA has responsibilities beyond internal audit the risks to independence must be recognised and adequate safeguards need to be approved by the audit committee and put in place to protect independence and objectivity.

Broad scope of assurance

The leadership team needs regular assurance that the organisation has good governance arrangements and is effectively managing its risks. The assurance framework that provides this will have a number of sources including a clearly defined management accountability framework, performance management and risk management, together with internal compliance functions such as legal, HR and health and safety. Assurance is also available from external inspectors and agencies and external auditors. Some organisations use the 'three lines of defence' model to explain these relationships. Setting out this framework of assurance should also help in explaining to others how internal audit fits into the wider governance picture.

The annual HIA opinion is on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in accordance with PSIAS. It is the most important output from the HIA and is one of the main sources of objective assurance that chief executives and the leadership team have for their annual governance statement. The HIA opinion is unique within the wider assurance framework in that it is independent and objective and in accordance with professional standards. This opinion must reflect the work done during the year and it must summarise the main findings and conclusions together with any specific concerns the HIA has. To build a robust opinion on the adequacy of the governance, risk and control framework the HIA will need to review and if appropriate place reliance on the work of others.

Evidence-based assurance

The HIA's opinion must be well founded if it is to give proper assurance to the organisation and improve governance and control arrangements. This means internal audit planning must be well focused and in accordance with professional standards.

The HIA may look to the work of other functions, partner organisations and other agencies as evidence for their assurance. Here the HIA must understand the basis for their assurances and its adequacy and whether the HIA needs to carry out any additional review work. A summary of assurances given and relied upon should be included in the HIA's annual report.

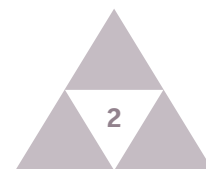
One of the HIA's key relationships must be with the external auditor. The role of the external auditor is to provide an opinion on the financial statements of the organisation together with wider reporting on value for money or best value. The external auditor will share internal audit's interest in the governance risk and control environment and both auditors should share their plans and findings on a regular basis.

Develop and implement a risk-based audit approach

Risk management is key to the effective delivery of public services. Organisations are becoming more mature in how they identify, evaluate and manage risks and opportunities. The HIA should encourage the organisation to improve its approach to risk management and the HIA opinion on the adequacy and effectiveness of risk management will provide assurance on an annual basis.

The audit plan must identify the priorities for internal audit based on an assessment of the key risks to organisational objectives and the extent of alternative sources of assurance, as well as the resources and skills needed to deliver it. Responsibility for effective governance, risk management and control arrangements remains with the organisation; the HIA cannot be expected to prevent or detect all weaknesses or failures in internal control nor can the internal audit plan cover all areas of risk across the organisation.

\ principle 2



The head of internal audit (HIA) in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance and commenting on responses to emerging risks and proposed developments.

The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 2 of the CIPFA Statement:

- Aligns with the strategies, objectives, and risks of the organisation.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.



Organisational responsibilities

To enable the HIA to fulfil their role the leadership team should ensure that they:

- establish top level commitment to the principles of good governance, recognising its importance for achieving strategic objectives
- set out the HIA's role in good governance and how this fits with the role of others
- recognise and support the role internal audit can play in providing advice and consultancy internally
- ensure that the HIA has the opportunity to advise on or provide assurance on all major projects, programmes and policy initiatives
- take account of the HIA's advice in new and developing systems.



Core HIA responsibilities

To fulfil Principle 2 the HIA should:

- work with others in the organisation to promote and support good governance
- help the organisation understand the risks to good governance
- give advice to the leadership team and others on the control arrangements and risks relating to proposed policies, programmes and projects
- promote the highest standards of ethics and standards across the organisation based on the principles of integrity, objectivity, competence and confidentiality
- demonstrate the benefits of good governance for effective public service delivery and how the HIA can help
- offer advisory or consulting services where appropriate
- 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.

Commentary

Promoting good governance

Good governance is fundamental to establishing confidence in public services. All managers have a responsibility for exercising good governance but the HIA can promote the principles of good governance across the organisation through their assurance and advisory work, encouraging good practice. This is consistent with the Core Principles for the Professional Practice of Internal Auditing. The internal audit charter sets out the scope of internal audit activities and provides the opportunity to outline how the HIA will fulfil this role.

Good governance is core to achieving strategic aims and demonstrating that public money is used well. The HIA can support the leadership team in establishing, maintaining and improving governance by promoting the benefits of good governance, interpreting and advising on the application of governance principles as well as reporting on governance risks. There are also benefits for the HIA in taking such an approach as this helps staff and the audit committee see the wider purpose of internal audit's work and the support they can provide. While the HIA is not responsible for the organisation's public report on governance, the HIA can

provide support to ensure the assessment is robust and the statement itself is effective.

The HIA should understand the range of risks to good governance the organisation faces, such as entering into new collaborative arrangements, managing resource pressures or taking on new statutory responsibilities. The HIA should then assess how best to support good governance and organisational improvement.

Advising on proposed developments

The HIA will seek to ensure the work of internal audit is aligned to the organisation's strategic goals and governance responsibilities. To facilitate this HIAs must be asked to consider the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks. HIAs should be made aware of major new systems and proposed initiatives such as new collaborative or commercial arrangements to help ensure risks are properly identified and evaluated and appropriate controls built in. Managers and the HIA must therefore be clear on the scope of any internal audit work here and of the kind of advice that is given to ensure the independence of other audit work and the HIA annual opinion is not compromised.

\ principle 3



The HIA must be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee.

The UK Public Sector Internal Audit Standards set out core principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 3 of the CIPFA Statement:

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



Organisational responsibilities

To enable the HIA to fulfil their role the leadership team should:

- 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
- ensure that where the HIA is an employee they report functionally to a member of the leadership team. The HIA should be sufficiently senior and independent within the organisation's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to management
- engage constructively with the HIA and facilitate their role throughout the organisation
- ensure the audit committee terms of reference² includes oversight of internal audit including the monitoring of adherence to professional standards
- ensure the HIA's reporting relationship with the audit committee and its chair as set out in the internal audit charter is applied
- ensure the organisation's governance arrangements give the HIA:
 - direct 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
- 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
- set out the HIA's responsibilities relating to organisational partners including collaborations and outsourced and shared services.

² In Local Government and Police CIPFA's Position Statement and supporting guidance include examples of audit committee terms of reference, including the committee's responsibilities for internal audit. [Audit Committee Practical Guidance for Local Government and Police](#), CIPFA, 2018



Core HIA responsibilities

To fulfil Principle 3 the HIA should:

- ensure the internal audit charter clearly establishes appropriate reporting lines that facilitate engagement with the leadership team and audit committee
- escalate any concerns about maintaining independence through the line manager, chief executive, audit committee and leadership team or external auditor as appropriate
- contribute to the review of audit committee effectiveness, advising the chair and relevant managers of any suggested improvements
- consult stakeholders, including senior managers and non-executive directors/elected representatives on internal audit plans.

Commentary

Senior manager

Heads of internal audit face increasing challenges and higher expectations from stakeholders, especially in helping organisations look forward. Regardless of how the internal audit is provided the HIA must be able to operate at the heart of the organisation, challenging and supporting the leadership team with authority and credibility. They should also be seen as a leader, promoting improvement and good governance. To do this effectively, make an impact and add value, the HIA position must be at a senior management level.

The HIA must also have unfettered access to key people across the organisation, especially to the chief executive, leadership team and audit committee chair.

The HIA role must be filled by a named individual so that all are clear about lines of responsibility. Where the service is provided in-house this should be straightforward. Where the service is contracted out or shared with others then the organisation must decide whether the HIA should come from within the organisation or from the supplier of the audit service. In the latter case the relationship between the HIA and the organisation, including the audit committee, must be clearly set out and arrangements made to ensure there is adequate access and visibility of the HIA to the leadership team. In practice it is likely that the HIA will be the person who is responsible for drawing up the internal audit charter

and plan, issuing the HIA annual internal audit opinion and engaging with the audit committee.

Engagement with the leadership team

The leadership team in public service organisations takes many forms, with different mixes of executive and non-executive members, as well as elected representatives. Collectively the leadership team is responsible for setting the strategic direction for the organisation, its implementation and the delivery of public services. The HIA must also have a right of access to individual members of the leadership team and should expect the support of the team consistent with reporting relationships set out in PSIAS.

Wherever the HIA is in the organisational structure the HIA will need to ensure and demonstrate adequate independence and objectivity. A senior position supports this, alongside appropriate safeguards if they have other management responsibilities.

Engagement with the audit committee

The HIA's relationship with the audit committee, and especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The HIA must work closely with the audit committee chair so that they are clear about their respective roles and make best use of internal audit.

\ principle 4



The HIA must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively.

The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 4 of the CIPFA Statement:

- Demonstrates integrity.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.



Organisational responsibilities

To enable the HIA to fulfil their role the leadership team should:

- provide the HIA with the status, resources, expertise and systems necessary to perform their role effectively
- ensure the audit committee contributes to a performance framework for the HIA and the internal audit service and takes action as appropriate
- ensure an external review of internal audit quality is carried out at least once every five years in accordance with PSIAS
- ensure the audit committee provides support for and participates in the quality assurance and improvement programme as set out in PSIAS.



Core HIA responsibilities

To fulfil Principle 4 the HIA should:

- lead and direct the internal audit service so that it meets the needs of the organisation and external stakeholders and fulfils professional standards
- demonstrate how internal audit adds value to the organisation
- determine the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit's objectives
- inform the leadership team and audit committee as soon as 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
- ensure the professional and personal training needs for staff are assessed and that these needs are met
- establish a quality assurance and improvement programme that includes:
 - ensuring professional internal audit standards are complied with
 - reviewing the performance of internal audit and ensuring the service provided is in line with the expectations and 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
 - seeking continuous improvement in the internal audit service
- keep up to date with developments in governance, risk management, control and internal auditing, including networking with other HIAs and learning from them, implementing improvements where appropriate.

Commentary

Meeting the needs of the business

Effective governance is critical in public service organisations and internal audit needs to play its part. The HIA must have a firm grasp and understanding of the organisation's business as well as its control environment. This will allow HIAs to give an opinion to the leadership team on how well these arrangements are working.

Whether internal audit is provided in-house, through a shared service or outsourced, the internal audit resources available must be proportionate to the size, complexity and risk profile of the organisation and must be enough for the HIA to give a reliable annual internal audit opinion on the organisation's framework of governance, risk management and control. Responsibility for ensuring that an effective and appropriately resourced internal audit service is in place rests with the organisation.

The HIA must set out the audit coverage and audit resources needed to give a sound, evidence-based annual audit opinion and must advise the audit committee and the leadership team where the available resources are inadequate and the consequences for the level of assurance that the HIA is able to give. Where concerns are raised by the HIA it is vital that they are listened to and the consequences understood.

Appropriately developed internal audit skills

A great deal of reliance is placed on the work of internal audit and the HIA must ensure all the work, including planning and individual assignments, is consistently of a high quality and in line with professional standards. The HIA must also ensure that all staff demonstrate the highest ethical standards. The HIA therefore has a responsibility to ensure that internal audit staff have appropriate qualifications, knowledge, skills and competencies and have access to development opportunities.

The HIA must provide clear guidance for internal audit staff with appropriate quality assurance for internal audit as a whole and for each audit assignment. The HIA has a duty to ensure their staff comply with the PSIAS and must have systems to verify this. More widely the HIA should ensure they and the team are up to date on current issues affecting their organisation and on internal audit techniques and developments.

\ principle 5



The HIA must be professionally qualified and suitably experienced.

The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 5 of the CIPFA Statement:

- Demonstrates competence and due professional care.
- Communicates effectively.



Organisational responsibilities

To enable the HIA to fulfil their role the leadership team should:

- appoint a professionally qualified HIA³ whose core responsibilities include those set out in the PSIAS as well as under the other principles in this statement and ensure that these are properly understood throughout the organisation
- ensure the HIA has the skills, knowledge and internal audit experience, together with sufficient resources to perform effectively in the role
- support continuing professional development of the HIA.



Core HIA responsibilities

To fulfil Principle 5 the HIA should:

- be a full member of an appropriate professional body and have an active programme for personal professional development
- adhere to professional internal audit and ethical standards (and where appropriate accounting and auditing standards).

³ PSIAS requires that the HIA must hold a professional qualification (CCAB, CMIIA or equivalent).

Commentary

Demonstrating professional and interpersonal skills

The HIA must be able to demonstrate their own professional credibility to exercise influence throughout the organisation. The HIA must be professionally qualified.

The HIA must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency, confidentiality, competence and reliability and promote these throughout the internal audit service.

The HIA must be able to operate effectively in different modes including directing, influencing, evaluating and informing. The HIA must be able to give objective opinions and advice even if this may be unwelcome and to intervene with authority where necessary. The HIA must be able to challenge the status quo and be a catalyst for change, achieving results through influence, without direct authority.

The HIA must be sensitive to the complexities and pressures facing organisations.

Applying business and professional experience

The HIA must have an understanding and commitment to the organisation's wider business and its delivery objectives, to inspire respect, confidence and trust amongst colleagues, with the leadership team, audit committee and other stakeholders.

The HIA must have a good understanding of business processes and governance including strategic planning and performance, financial and risk management.

The HIA should be seen as a catalyst to improving governance and internal control and also supporting the organisation in its wider business objectives. The HIA's leadership must set the tone that good governance, risk management, and internal control matter to everyone in the organisation.

personal skills and professional standards



This section sets out the personal skills and professional standards of the HIA that are necessary to support the five principles in practice.

Principle 1

- Give clear, professional and objective advice.
- Report on what is found, without fear or favour.
- Demonstrate integrity to staff and others in the organisation.
- Exercise sound judgement in identifying weaknesses in the organisation's control environment and a balanced view on how significant these are.
- 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.
- Work positively and constructively, influencing the leadership team, audit committee and others to ensure the HIA's recommendations are implemented.
- 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.

Principle 2

- Provide leadership by giving practical examples of good governance that will inspire others.
- Deploy effective facilitating and negotiating skills.
- Build and demonstrate commitment to supporting continuous improvement of the organisation.

Principle 3

- Network effectively to raise the profile and status of internal audit.
- Adopt a flexible style, being able to collaborate, advise and challenge as appropriate.
- Build productive professional relationships both internally and externally.
- Work effectively with the leadership team and audit committee, showing political awareness and sensitivity.
- Be seen to be objective and independent but also pragmatic where appropriate.

Principle 4

- Demonstrate leadership and be an ambassador for internal audit.
- Create, communicate and implement a vision for the internal audit service.
- Create a customer-focused internal audit service.
- Establish an open culture, built on effective coaching and a constructive approach.
- Promote effective communication within internal audit, across the broader organisation and with external stakeholders.
- Manage and coach staff effectively.
- Comply with professional standards and ethics.
- Require the highest standards of ethics and standards within internal audit based on the principles of integrity, objectivity, competence and confidentiality.

Principle 5

- Demonstrate a range of skills including communicating, managing and influencing, as well as an understanding of IT and consulting services.
- Understand and have experience of strategic objective setting and management.
- Understand the internal audit and regulatory environment applicable to public service organisations.
- Demonstrate a comprehensive understanding of governance, risk management and internal control.
- Undertake appropriate development or obtain relevant experience in order to demonstrate an understanding of the full range of the organisation's activities and processes.

definitions used throughout the document

The public services have a wide variety of organisational structures and governance arrangements. The definitions used in this document are primarily based on those used in CIPFA's Role of the Chief Financial Officer Statement and in the Public Sector Internal Audit Standards (PSIAS).

Annual governance report

The mechanism by which an organisation publicly reports on its governance arrangements each year.

Assurance

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation.

Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the organisation's policies, processes and controls and the second being managers' own checks of this first line.

Assurance framework

This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

Audit committee

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

Board

The group of people charged with setting the strategic direction for the organisation and responsible for its achievement.

Chief financial officer

The organisation's most senior executive role charged with leading and directing financial strategy and operations.

Control environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Governance⁴

The arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

Head of internal audit opinion

The opinion issued each year by the HIA on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The opinion is used by the chief executive in some public service organisations as a key source in drafting the annual governance report.

⁴ The International Framework: Good Governance in the Public Services (CIPFA/IFAC, 2014)

Internal audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Leadership team

Comprises the board and management team.

Managers

The staff responsible for the achievement of the organisation's purpose through services/ businesses and delivery to its clients/customers.

Management team

The group of executive staff comprising the senior management charged with the execution of strategy.

Public service organisation

One or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for civic society, are not privately owned and receive public and/or charitable funding.

Risk management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.



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