

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

25 OCTOBER 2019

## PROGRESS ON 2019/20 INTERNAL AUDIT PLAN

## Report of the Head of Internal Audit

**1.0 PURPOSE OF THE REPORT**

- 1.1 To inform Members of the progress made to date in delivering the 2019/20 Internal Audit Plan and any developments likely to impact on the Plan throughout the remainder of the financial year.
- 1.2 To seek approval for changes to the Audit Charter.

**2.0 BACKGROUND**

- 2.1 Members approved the 2019/20 Audit Plan on the 21 June 2019. The total number of planned audit days for 2018/19 is 1,090 (plus 956 days for other work including counter fraud and information governance). The performance target for Veritau is to deliver 93% of the agreed Audit Plan.
- 2.2 This report provides details of how work on the 2019/20 Audit Plan is progressing.

**3.0 INTERNAL AUDIT PLAN PROGRESS BY 30 SEPTEMBER 2019**

- 3.1 The internal audit performance targets for 2019/20 were set by the County Council's client officer. Progress against these performance targets, as at 30 September 2019, is detailed in **Appendix 1**.
- 3.2 Work is ongoing to complete the agreed programme of work. It is anticipated that the 93% target for the year will be exceeded by the end of April 2020 (the cut off point for 2019/20 audits). **Appendix 2** provides details of the final reports issued in the period. A further 6 audit reports have been issued but remain in draft. Fieldwork is currently underway with a number of other scheduled audits.

**Contingency and Counter Fraud Work**

- 3.3 Veritau continues to handle cases of suspected fraud or malpractice. Such assignments are carried out in response to issues raised by staff or members of the public via the Whistleblower Hotline, or as a result of management raising concerns. Since the start of the current financial year, 34 cases of suspected fraud or malpractice have been referred to Veritau for investigation. 9 of these are internal fraud cases, 12 relate to social care and 5 relate to external fraud, debt recovery, or abuse of the council's financial assistance scheme. A further 8 cases relate to applications for a school place. A number of these investigations are still ongoing.

## Information Governance

- 3.4 Veritau's Information Governance Team (IGT) continues to handle a significant number of information requests submitted under the Freedom of Information and Data Protection Acts. The number of FOI requests received between 1 April 2018 and 30 September 2019 is 470 compared with 658 requests received during the corresponding period in 2018/19. The County Council is currently below the performance response target of 95% for 2019/20 with approximately 77% of requests so far being answered within the statutory 20 day deadline. Actions continue to be taken to improve performance in this area. The IGT also coordinates the County Council's subject access requests (SARs) and has received 171 such requests between 1 April 2019 and 30 September 2019 compared to 115 requests received during the corresponding period in 2018/19.
- 3.5 Veritau acts as the County Council's Data Protection Officer following the implementation of the General Data Protection Regulation (GDPR) and Data Protection Act 2018. The IGT provides advice and support to the County Council on data protection matters, reviews compliance with the legislation and liaises with the regulator, the Information Commissioner's Office (ICO). Other work includes preparing data sharing agreements, recording data security incidents and investigating serious data security incidents. Veritau auditors have also continued to undertake a programme of unannounced compliance visits to County Council premises in order to assess staff awareness of the need to secure personal and confidential information.

## Variations to the 2019/20 Audit Plan

- 3.6 All proposed variations to the agreed Audit Plan arising as the result of emerging issues and/or requests from directorates are subject to a Change Control process. Where the variation exceeds 5 days then the change must be authorised by the client officer. Any significant variations will then be communicated to the Audit Committee for information. The following variations have been authorised since the last progress report. The variations follow discussions with management and reflect changes in current priorities:

Safeguarding (HAS)	-20 days
Harrogate Adult Community Services Health and Social Care Integration (HAS)	-25 days
Reduction in Continuing Healthcare (HAS) (20 days)	-15 days
Home to School Transport (CYPS)	-15 days
Reduction in Financial Processes (CS) (15 days)	-5 days
Contingency (10 days)	-10 days
Additional allocation to Information Governance work	+45 days
Additional allocation to Corporate Fraud work	+45 days
Net change to plan	<b>nil</b>

## Follow Up of Agreed Actions

- 3.7 Veritau follows up all agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. An escalation process is in place for when agreed actions are not implemented or where management fail to provide adequate information to enable an assessment to be made. At this stage in the year, there are no actions which have needed to be escalated. On the basis of the follow up work undertaken during the year to date, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.

## Audit Charter / CIPFA Statement on the Role of the Head of Internal Audit

- 3.8 Some minor amendments to the County Council's Internal Audit Charter are proposed. The proposed changes reflect recently updated guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA). A number of other minor drafting changes are also proposed. The updated Charter with tracked changes highlighted is attached at **Appendix 3**.
- 3.9 CIPFA has also recently published an updated Statement on the Role of the Head of Internal Audit. This replaces the previous 2010 edition. The updated Statement represents best practice. It also reflects some of the challenges now facing internal audit including changes in service delivery, resourcing pressures and new technology. The Principles have also been updated and are now aligned to the requirements of the Public Sector Internal Audit Standards. A copy of the revised Statement is attached as **Appendix 4** for information.

### 4.0 **RECOMMENDATION**

Members are asked to:

- 4.1 note the progress made in delivering the 2019/20 Internal Audit programme of work and the variations agreed by the client officer.
- 4.2 approved the proposed changes to the Internal Audit Charter.
- 4.3 note the updated CIPFA Statement on the Role of the Head of Internal Audit.

Report prepared and presented by Max Thomas, Head of Internal Audit

Max Thomas  
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8 October 2019

**Background Documents:** Relevant audit reports kept by Veritau at 50 South Parade, Northallerton

**PROGRESS AGAINST 2019/20 PERFORMANCE TARGETS (AS AT 30/9/2019)**

Indicator	Milestone	Position at 30/9/2019
To deliver 93% of the agreed Internal Audit Plan	93% by 30/4/20	23.68%
To achieve a positive customer satisfaction rating of 95%	95% by 31/3/20	100%
To ensure 95% of Priority 1 recommendations made are agreed	95% by 31/3/20	0%
To ensure at least 30% of investigations completed result in a positive outcome (management action, sanction or prosecution)	30% by 31/3/20	41.46%
To identify actual fraud savings of £50k (quantifiable savings)	£50k by 31/3/20	£39,668
To ensure 95% of FOI requests are answered within the Statutory deadline of 20 working days	95% by 31/3/19	77.02%

**FINAL 2019/20 AUDIT REPORTS ISSUED TO DATE**

<b>Audit Area</b>	<b>Directorate</b>	<b>Overall Opinion</b>
Information security compliance – Legal Services	Corporate	Substantial assurance
Visits to Care Providers - Botton Village / Avalon	HAS	No opinion
Visits to Care Providers - Castle Grange (Scarborough)	HAS	No opinion
Developing Stronger Families - June claim	CYPS	No opinion
Developing Stronger Families - September claim	CYPS	No opinion

# North Yorkshire County Council Internal Audit Charter

25 October~~22 June~~ 2019~~7~~

## 1 Introduction

- 1.1 There is a statutory duty on the County Council to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit (England) Regulations 2015 also require that the audit takes into account public sector internal auditing standards or guidance. The Chartered Institute of Public Finance and Accountancy (CIPFA) is responsible for setting standards for proper practice for local government internal audit in England.
- 1.2 From 1 April 2017 CIPFA adopted revised Public Sector Internal Audit Standards (PSIAS)<sup>1</sup> compliant with the Institute of Internal Auditors' (IIA) International Standards. The PSIAS and CIPFA's local government application note for the standards represent proper practice for internal audit in local government. This charter sets out how internal audit at North Yorkshire County Council will be provided in accordance with this proper practice.
- 1.3 This charter should be read in the context of the wider legal and policy framework which sets requirements and standards for internal audit, including the Accounts and Audit Regulations, the PSIAS and application note, and the County Council's constitution, regulations and governance arrangements.

## 2 Definitions

- 2.1 The standards include reference to the roles and responsibilities of the "board" and "senior management". Each organisation is required to define these terms in the context of its own governance arrangements. For the purposes of the PSIAS these terms are defined as follows at the County Council.

"Board" – the Audit Committee fulfils the responsibilities of the board in relation to internal audit standards and activities.

"Senior Management" – in the majority of cases, the term senior management in the PSIAS should be taken to refer to the Corporate Director – Strategic Resources in ~~their his~~ role as Chief Financial Officers~~151-officer~~. This includes all functions relating directly to overseeing the work of internal audit. In addition, senior management may also refer to the Chief Executive and/or any other Corporate Director (acting individually) or collectively as the County Council's Management Board in relation to:

- enabling direct and unrestricted access for reporting purposes
- consulting on risks affecting the County Council for audit planning purposes
- approving the release of information arising from audit work to any third party.

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<sup>1</sup> The PSIAS were adopted jointly by relevant internal audit standard setters across the public sector.



2.2 The standards also refer to the “chief audit executive”. This is taken to be the Head of Internal Audit (Veritau).

### 3 Application of the standards

3.1 In line with the PSIAS, the mission of internal audit at the County Council is:

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

3.2 The County Council requires that the internal audit service aspires to achieve the mission through its overall arrangements for delivery of the service. In aiming to achieve this, the council expects that the service:

- 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 organisation
- 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.

3.2 The PSIAS defines internal audit as follows.

*“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.”*

3.3 The County Council acknowledges the mandatory nature of this definition and confirms that it reflects the purpose of internal audit. The County Council also requires that the service be undertaken in accordance with the code of ethics and standards set out in the PSIAS. To provide optimum benefit, the County Council requires that internal audit works in partnership with management to improve the control environment and to help the organisation achieve its objectives.

## **4 Scope of internal audit activities**

- 4.1 The scope of internal audit work will encompass the County Council's entire control environment<sup>2</sup>, comprising its systems of governance, risk management, and control.
- 4.2 The scope of audit work also extends to services provided through partnership arrangements, irrespective of what legal standing or particular form these may take. The Head of Internal Audit, in consultation with all relevant parties and taking account of audit risk assessment processes, will determine what work will be carried out by the internal audit service, and what reliance may be placed on the work of other auditors.

## **5 Responsibilities and objectives**

- 5.1 The Head of Internal Audit is required to provide an annual report to the Audit Committee. The report will be used by the Committee to inform its consideration of the County Council's annual governance statement. The report will include:
- the Head of Internal Audit's opinion on the adequacy and effectiveness of the Council's framework of governance, risk management, and control
  - any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
  - any particular control weakness judged to be relevant to the preparation of the annual governance statement
  - a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
  - an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme
  - a statement on conformance with the PSIAS (including the code of ethics and standards) and the results of the quality assurance and improvement programme.
- 5.2 To support the opinion the Head of Internal Audit will ensure that an appropriate programme of audit work is undertaken. In determining what work to undertake the service should:
- adopt an overall strategy setting out how the service will be delivered in accordance with this Charter
  - draw up an indicative risk based audit plan on an annual basis following consultation with the Audit Committee and senior management. The audit plan

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<sup>2</sup> For example the work of internal audit is not limited to the review of financial controls only.

will also reflect the requirements of the Charter, the strategy, and proper practice

- consider trends and emerging issues that may impact the organisation

5.3 In undertaking this work, the responsibilities of the internal audit service will include:

- providing assurance to the board and senior management on the effective operation of governance arrangements and the internal control environment operating at the County Council<sup>3</sup>
- objectively examining, evaluating and reporting on the probity, legality and value for money of the Council's arrangements for service delivery
- reviewing the Council's financial arrangements to ensure that proper accounting controls, systems and procedures are maintained and, where necessary, for making recommendations for improvement
- helping to secure the effective operation of proper controls to minimise the risk of loss, the inefficient use of resources and the potential for fraud and other wrongdoing
- acting as a means of deterring all fraudulent activity, corruption and other wrongdoing; this includes conducting investigations into matters referred by Members, officers, and the public and reporting findings of those investigations to the relevant officers and Members as appropriate for action
- advising the Council on relevant counter fraud and corruption policies and measures.

5.4 The Head of Internal Audit will ensure that the service is provided in accordance with proper practice as set out above and in accordance with any other relevant standards – for example County Council policy and/or legal or professional standards and guidance.

5.5 In undertaking their work, internal auditors should have regard to:

- the mission of internal audit, core principles and standards as set out in the PSIAS and reflected in this charter
- the code of ethics in the PSIAS<sup>4</sup>
- the codes of any professional bodies of which they are members
- standards of conduct expected by the County Council
- the Committee on Standards in Public Life's *Seven Principles of Public Life*.

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<sup>3</sup> where third parties place reliance on the assurance provided then they do so at their own risk

<sup>4</sup> Veritau has adopted its own code of ethics which fulfil the requirements of the PSIAS.

## 6 Organisational independence

- 6.1 It is the responsibility of corporate directors to maintain effective systems of risk management, internal control, and governance. Auditors will have no responsibility for the implementation or operation of systems of control and will remain sufficiently independent of the activities audited to enable them to exercise objective professional judgement.
- 6.2 Audit advice and recommendations will be made without prejudice to the rights of internal audit to review and make further recommendations on relevant policies, procedures, controls and operations at a later date.
- 6.3 The Head of Internal Audit will put in place measures to ensure that individual auditors remain independent of areas they are auditing for example by:
- rotation of audit staff
  - ensuring staff are not involved in auditing areas where they have recently been involved in operational management, or in providing consultancy and advice<sup>5</sup>
  - .

## 7 Accountability, reporting lines, and relationships

- 7.1 Internal audit services are provided under contract to the Council by Veritau Limited. The company is a separate legal entity<sup>6</sup>. Staff undertaking internal audit work will be employed by Veritau or another Veritau group company. Staff may also be seconded to Veritau from the County Council. The Corporate Director – Strategic Resources acts as client officer for the contract, and is responsible for overall monitoring of the service.
- 7.2 In its role in providing an independent assurance function, Veritau has direct access to Members and senior managers and can report uncensored to them as considered necessary. Such reports may be made to the:
- Council, Executive, or any committee (including the Audit Committee)
  - Chief Executive
  - Corporate Director – Strategic Resources (Chief Financial Officers151-officer)
  - Monitoring Officer
  - Any other corporate director and/or service manager.

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<sup>5</sup> auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months

<sup>6</sup> Veritau is part-owned by the County Council. The company provides internal audit services to a number of member councils and other public sector organisations.

- 7.3 The Corporate Director – Strategic Resources (~~Chief Financial Officer as s151 officer~~) has ~~a statutory specific~~ responsibilities~~y~~ for ensuring that the County Council has ~~an effective systems~~ of risk management and internal control. The role includes a responsibility to ensure that the County Council has put in place arrangements for effective internal audit. In recognition of the importance of the relationship between the Chief Financial Officer and internal audit (recognised in the standards), a protocol has been drawn up setting out the relationship between them. ~~internal audit in place. In recognition of this, a protocol has been drawn up setting out the relationship between internal audit and the Corporate Director – Strategic Resources.~~ This is included in Annex 1.
- 7.4 The Head of Internal Audit will report independently to the Audit Committee<sup>7</sup> on:
- proposed allocations of audit resources
  - any significant risks and control issues identified through audit work
  - ~~their~~his/her annual opinion on the Council's control environment.
- 7.5 The Head of Internal Audit will informally meet in private with members of the Audit Committee, or the committee as a whole as required. Meetings may be requested by committee members or the Head of Internal Audit.
- 7.6 The Audit Committee will oversee (but not direct) the work of internal audit. This includes commenting on the scope of internal audit work and approving the annual audit plan. The committee will also protect and promote the independence and rights of internal audit to enable it to conduct its work and report on its findings as necessary<sup>8</sup>.

## **8 Fraud, consultancy services and non-audit services**

- 8.1 The primary role of internal audit is to provide assurance services to the County Council. However, the service may also be required to undertake fraud investigation and other consultancy work to add value and help improve governance, risk management and control arrangements.
- 8.2 The prevention and detection of fraud and corruption is the responsibility of management. However, all instances of suspected fraud and corruption should be notified to the Head of Internal Audit, who will decide on the course of action to be taken in consultation with the relevant corporate director and/or other advisors (for example human resources). Where appropriate, cases of suspected fraud or corruption will be investigated by Veritau.
- 8.3 Where appropriate, Veritau may carry out other consultancy related work, for example specific studies to assess the economy, efficiency, and effectiveness of

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<sup>7</sup> The committee charged with overall responsibility for governance at the county council.

<sup>8</sup> The relationship between internal audit and the Audit Committee is set out in more detail in Annex 2.

elements of service provision. The scope of such work will be determined in conjunction with the relevant corporate directors and/or service managers. Such work will only be carried out where there are sufficient resources and skills within Veritau and where the work will not compromise the assurance role or the independence of internal audit. Details of all significant consultancy assignments completed in the year will be reported to the Audit Committee.

- 8.4 Where Veritau provides non-audit services (for example information governance), appropriate safeguards will be put in place to ensure audit independence and objectivity are not compromised. These safeguards include the work being performed by a separate team with different line management arrangements. Separate reporting arrangements will also be maintained. The Head of Internal Audit will report any instances where audit independence or objectivity may be compromised to the Corporate Director – Strategic Resources and the Audit Committee. The Head of Internal Audit will also take steps to limit any actual or perceived impairment that might occur (for example by arranging for the audit of these services or functional activities to be overseen externally).

## **9 Resourcing**

- 9.1 As part of the audit planning process the Head of Internal Audit will review the resources available to internal audit, to ensure that they are appropriate and sufficient to meet the requirements to provide an opinion on the County Council's control environment. Where resources are judged to be inadequate or insufficient, recommendations to address the shortfall will be made to the Corporate Director – Strategic Resources and to the Audit Committee.

## **10 Rights of access**

- 10.1 To enable it to fulfil its responsibilities, the County Council gives internal auditors employed by Veritau the authority to:
- enter all Council premises or land, at any reasonable time
  - have access to all data, records, documents, correspondence, or other information - in whatever form - relating to the activities of the Council
  - have access to any assets of the Council and to require any employee of the Council to produce any assets under their control
  - be able to require from any employee or Member of the Council any information or explanation necessary for the purposes of audit.
- 10.2 Corporate directors and service managers are responsible for ensuring that the rights of Veritau staff to access premises, records, and personnel are preserved, including where the County Council's services are provided through partnership arrangements, contracts or other means.

## **11 Review**

- 11.1 This charter will be reviewed periodically by the Head of Internal Audit. Any recommendations for change will be made to the Corporate Director – Strategic Resources and the Audit Committee, for approval.

**Relationship between the Corporate Director – Strategic Resources  
(the Chief Financial Officers~~151 Officer~~) and internal audit**

- 1 In recognition of the statutory duties of the Council's Corporate Director – Strategic Resources (the Corporate Director)~~for internal audit~~, this protocol has been adopted to form the basis for a sound and effective working relationship between the Corporate Director and internal audit.
- (i) The Head of Internal Audit (HoIA) will seek to maintain a positive and effective working relationship with the Corporate Director.
  - (ii) Internal audit will review the effectiveness of the Council's systems of control, governance, and risk management and report its findings to the Corporate Director (in addition to the Audit Committee).
  - (iii) The Corporate Director will be asked to comment on those elements of internal audit's programme of work that relate to the discharge of ~~their~~his/her statutory duties. In devising the annual audit plan and in carrying out internal audit work, the HoIA will give full regard to the comments of the Corporate Director.
  - (iv) The HoIA will notify the Corporate Director of any matter that in the HoIA's professional judgement may have implications for the Corporate Director in discharging ~~their~~his/her ~~statutory~~151 responsibilities.
  - (v) The Corporate Director will notify the HoIA of any concerns that ~~they~~he/she may have about control, governance, or suspected fraud and corruption and may require internal audit to undertake further investigation or review.
  - (vi) The HoIA will be responsible for ensuring that internal audit is provided in accordance with proper practice.
  - (vii) If the HoIA identifies any shortfall in resources which may jeopardise the ability to provide an opinion on the County Council's control environment, then ~~they~~he/she will make representations to the Corporate Director, as well as to the Audit Committee.
  - (viii) The HoIA will report to the Corporate Director (and the Audit Committee) any instances where internal audit independence or objectivity is likely to be compromised, together with any planned remedial action.
  - (ix). The HoIA will report to the Corporate Director (and the Audit Committee) any instances where audit work has not conformed to the code of ethics and/or the standards. This includes the reasons for non-conformance and the possible impact on the audit opinion.



- (x) The Corporate Director will protect and promote the independence and rights of internal audit to enable it to conduct its work effectively and to report as necessary.

## Relationship between the Audit Committee and internal audit

- 1 The Audit Committee plays a key role in ensuring that the County Council maintains a robust internal audit service and it is therefore essential that there is an effective working relationship between the Committee and internal audit. This protocol sets out some of the key responsibilities of internal audit and the Committee.
- 2 The Audit Committee will seek to:
  - (i) raise awareness of key aspects of good governance across the County Council, including the role of internal audit and risk management
  - (ii) ensure that adequate resources are provided by the County Council so as to ensure that internal audit can satisfactorily discharge its responsibilities
  - (iii) protect and promote the independence and rights of internal audit to conduct its work properly and to report on its findings as necessary.
- 3 Specific responsibilities in respect of internal audit include the following.
  - (i) Oversight of, and involvement in, decisions relating to how internal audit is provided.
  - (ii) Approval of the internal audit charter.
  - (iii) Consideration of the annual report and opinion of the Head of Internal Audit (HoIA) on the County Council's control environment.
  - (iv) Consideration of other specific reports detailing the outcomes of internal audit work.
  - (v) Consideration of reports dealing with the performance of internal audit and the results of its quality assurance and improvement programme.
  - (vi) Consideration of reports on the implementation of actions agreed as a result of audit work and outstanding actions escalated to the Committee in accordance with the approved escalation policy.
  - (vii) Approval (but not direction) of the annual internal audit plan.
- 4 In relation to the Audit Committee, the HoIA will:
  - (i) attend its meetings and contribute to the agenda
  - (ii) ensure that overall internal audit objectives, workplans, and performance are communicated to, and understood by, the Committee
  - (iii) provide an annual summary of internal audit work in accordance with the agreed work programme of the Committee, and an opinion on the Council's

control environment, including details of unmitigated risks or other issues that need to be considered by the Committee

- (iv) establish whether anything arising from the work of the Committee requires changes to the audit plan or vice versa
  - (v) highlight any shortfall in the resources available to internal audit or any instances where the independence or objectivity of internal audit work may be compromised (and make recommendations to address these to the Committee)
  - (vi) report any significant risks or control issues identified through audit work which the HoIA feels necessary to specifically report to the Committee. This includes risks which management are failing to address but which the HoIA considers are unacceptable for the County Council.
  - (vii) report any actual or attempted interference in the performance or reporting of internal audit work
  - (viii) participate in the Committee's review of its own remit and effectiveness
  - (ix) discuss the outcomes of the quality assurance and improvement programme, and consult with the board on how external assessment of the internal audit service will be conducted (required once every five years).
- 5 The HoIA will informally meet in private with members of the Audit Committee, or the committee as a whole as required. Meetings may be requested by committee members or the HoIA.

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)<sup>1</sup> 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.

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<sup>1</sup> 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.

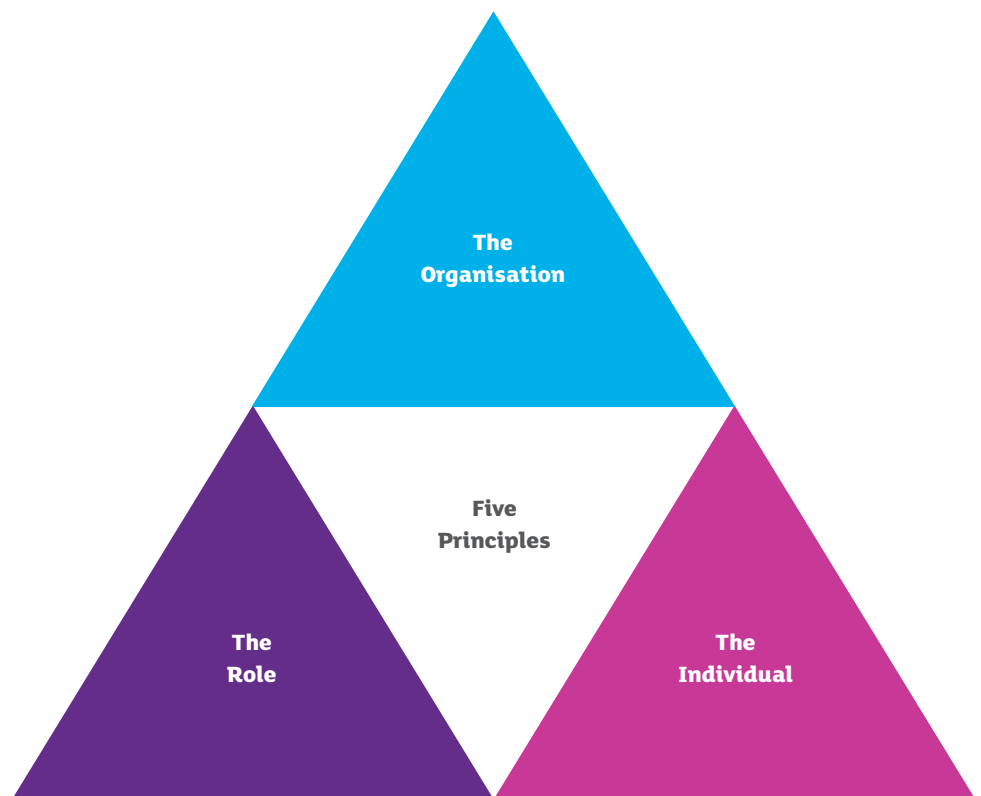
## The Principles

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.

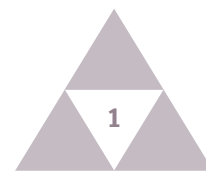
To perform this role the head of internal audit must:

- 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.

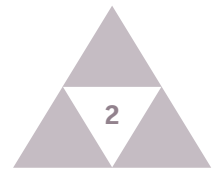
One of the HIA's key relationships must be with the external auditor. The role of the external auditor is to provide an opinion on the financial statements of the organisation together with wider reporting on value for money or best value. The external auditor will share internal audit's interest in 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

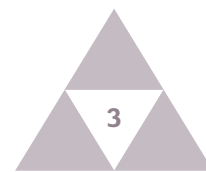
provide support to ensure the assessment is robust and the statement itself is effective.

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 reference<sup>2</sup> 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.

<sup>2</sup> 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.

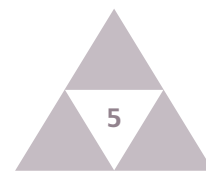
The HIA must set out the audit coverage and audit resources needed to give a sound, evidence-based annual audit opinion and must advise the audit committee and the leadership team where the available resources are inadequate and the consequences for the level of assurance that the HIA is able to give. 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 HIA<sup>3</sup> 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).

<sup>3</sup> 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.

## Governance<sup>4</sup>

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.

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<sup>4</sup> 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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