

# **\the role of the head of internal audit**

in Local Government

**Draft  
21 December 2010**

# **CIPFA Statement on the role of the Head of Internal Audit in Local Government**

**The Head of Internal Audit in a local authority plays a critical role in delivering the authority's strategic objectives by:**

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

**To perform this role the Head of Internal Audit:**

- 3 must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee;
- 4 must lead and direct an internal audit service that is resourced to be fit for purpose; and
- 5 must be professionally qualified and suitably experienced.

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## \ foreword

This Statement describes the role of the Head of Internal Audit (HIA) in local government. It builds on CIPFA's Statement on the role of the HIA in public service organisations issued in December 2010 and applies the principles and roles set out in that document to local government.

The HIA occupies a critical position in a local authority, helping it to achieve its objectives by giving assurance on its internal control arrangements and playing a key role in promoting good corporate governance.

Local authorities need to know that they have strong arrangements for controlling their resources and for delivering their objectives. CIPFA believes that HIAs have a unique role to play here. They are senior managers whose business is objectively assessing these arrangements and the risks that authorities face and giving appropriate assurances. HIAs must also provide leadership, promoting good governance and helping authorities to address future challenges.

HIAs need to review the whole system of control, both financial and non-financial, and focus on the areas where assurance is most needed. The HIA also has to give an annual opinion on the adequacy and effectiveness of the control environment; this is used by Chief Executives as a primary source of evidence for their annual governance statement.

HIAs must also be able to show that they can meet the needs of stakeholders such as Chief Executives and Audit Committees, adding value by helping to improve services whilst retaining their objectivity. They also need to work well with partners and other auditors.

Authorities should see the Statement as best practice and use it to assess their HIA arrangements to drive up audit quality and governance arrangements.

The aim of this Statement is to clarify the role of the HIA in local government and to raise its profile. It is intended to be helpful to a wide audience including Leadership Teams, including Chief Executives, Audit Committees, other stakeholders as well as HIAs themselves. 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.

**Mike More**

Chair

CIPFA Steering Group on the role of the  
Head of Internal Audit in public service organisations

21 December 2010

**Steve Freer**

Chief Executive

CIPFA

## \ definitions used throughout the document

The definitions used in this document are primarily based on those used in CIPFA's Role of the Chief Financial Officer Statement and in CIPFA's Code of Practice for Internal Audit in Local Government. These definitions are broadly consistent with those used by the Institute of Internal Auditors (IIA). There are some differences (marked as \*).

<b>Head of Internal Audit (HIA)</b>	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.
<b>Leadership Team</b>	Comprises the Board and Management Team.
<b>Board</b>	The group of people charged with setting the strategic direction for the organisation and responsible for its achievement.
<b>Management Team</b>	The group of executive staff comprising the senior management charged with the execution of strategy.
<b>Chief Executive</b>	The most senior executive role in the organisation.
<b>Chief Financial Officer (CFO)</b>	The organisation's most senior executive role charged with leading and directing financial strategy and operations.
<b>Managers</b>	The staff responsible for the achievement of the organisation's purpose through services/businesses and delivery to its clients/customers.
<b>Governance<sup>1</sup></b>	The arrangements in place to ensure that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient and ethical manner.
<b>Control environment*</b>	Comprises the systems of governance, risk management and internal control. The key elements include: <ul style="list-style-type: none"> <li>▪ establishing and monitoring the achievement of the organisation's objectives</li> <li>▪ the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded</li> <li>▪ ensuring the economical, effective and efficient use of resources and for securing continuous improvement</li> <li>▪ the financial management of the organisation and the reporting of financial management</li> <li>▪ the performance management of the organisation and the reporting of performance management.</li> </ul>

<sup>1</sup> *The Good Governance Standard for Public Services (Independent Commission chaired by Sir Alan Langlands, 2004)*

<b>System of internal control</b>	The totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.
<b>Risk management*</b>	A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.
<b>Risk based audit*</b>	An audit that: <ul style="list-style-type: none"> <li>▪ identifies and records the objectives, risks and controls</li> <li>▪ establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives</li> <li>▪ evaluates the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks</li> <li>▪ identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate</li> <li>▪ determines an appropriate strategy to test the effectiveness of controls ie through compliance and/or substantive testing</li> <li>▪ arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.</li> </ul>
<b>Audit Committee</b>	The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.
<b>Internal audit*</b>	An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
<b>Consultancy</b>	Advisory and related client service activities, the nature and scope of which are agreed by the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility.
<b>Annual governance statement</b>	The mechanism by which an authority publicly reports on its governance arrangements each year.

<p><b>Assurance</b></p>	<p>A confident assertion, based on sufficient, relevant and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The HIA may be unable to give an assurance if arrangements are unsatisfactory.</p> <p>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.</p>
<p><b>Head of Internal Audit Opinion</b></p>	<p>The opinion issued each year by the HIA on the adequacy and effectiveness of the authority's control environment and which is used by the Chief Executive as a key source in drafting the annual governance statement.</p>

## **\ introducing the CIPFA Statement**

### **The public service context**

Citizen, service user and taxpayer: all of us occupy one or other of these roles at different times. We all have different priorities and needs, but our common ground is that we expect high standards of service within affordable tax levels. And we demand exemplary standards of behaviour where public money is spent.

Public services also face frequent structural changes and changing models of service delivery and partnerships. Expectations of contestability and competition as drivers of value for money are also blurring the boundaries between the public and private sectors. This has increased the variety of governance arrangements, even among similar types of bodies.

### **Good governance**

The changing political environment within which decisions are taken and services delivered creates a range of stakeholders whose interests and influences must be acknowledged, understood, managed and balanced.

The demand for better public services within a complex environment has strengthened the need for effective governance. Good governance in local government requires a focus on an authority's purpose and its intended outcomes. It also carries a specific obligation in relation to citizens, taxpayers and service users to make best use of resources and ensure value for money.

### **The key role played by the HIA**

Internal audit is one of the cornerstones of effective governance. The HIA is responsible for reviewing and reporting on the adequacy of the authority's control environment, including the arrangements for achieving value for money. Through the annual internal audit opinion and other reports the HIA gives assurance to the Leadership Team and others, and makes recommendations for improvement.

The HIA's role is a unique one, providing objective challenge and support and acting as a catalyst for positive change and continual improvement in governance in all its aspects. The role is particularly important when authorities are facing uncertain or challenging times. Fulfilling the role requires a range of personal qualities. The HIA has to win the support and trust of others, so that he/she is listened to, and the HIA's role as a critical friend means that sometimes difficult messages must be given and acted on.

It is these expectations, combined with the professional, personal and leadership skills required, that have shaped the CIPFA Statement on the role of the HIA in Local Government.

### **Primary audience**

The primary audience for this Statement is those who rely on the HIA's assurances – the Leadership Team and the Audit Committee. CIPFA recommends that they should examine their own authority against this Statement to satisfy themselves that they have effective HIA arrangements in place.

## **Local government context**

CIPFA has drawn up a separate Statement for local government because of the statutory responsibility of specific post holders regarding internal audit and governance. In local government the 'Section 151' officer (the Chief Financial Officer or CFO) is a statutory post as is the Monitoring Officer (often the Head of Legal Services) and the Head of Paid Service (often the Chief Executive). The HIA needs to work well with these post holders and lines of responsibility need to be clear. Arrangements will vary across authorities but the statutory requirements for internal audit in local government, along with a summary description of the statutory posts and the differing legal requirements across the UK is provided at Appendix 1; this also sets out. In both cases there are differences between different parts of the UK and the Statement should be read with this in mind.

This Statement should be viewed alongside CIPFA's Code of Practice for Internal Audit in Local Government. CIPFA has also issued a Statement on the role of the Chief Financial Officer in Local Government. This includes their role in governance and internal audit.

## \ using the CIPFA 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 local government and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:

- the organisation;
- the role; and
- the individual.

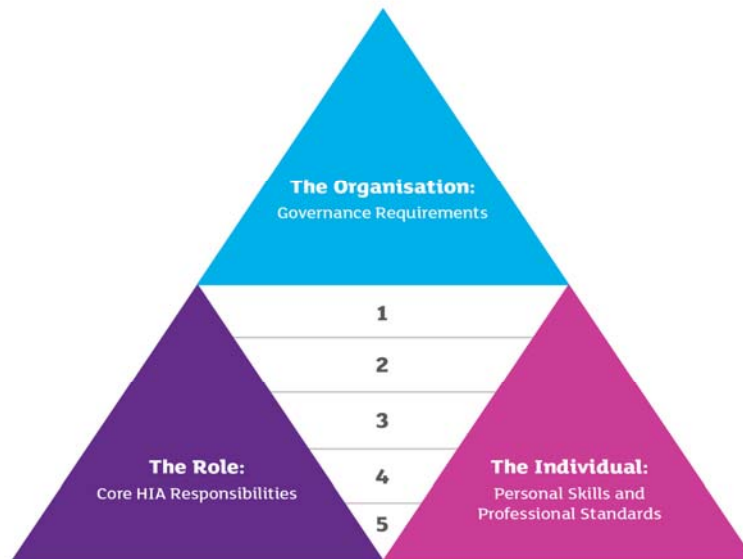
For each principle the Statement sets out the governance arrangements required within an authority to ensure that HIAs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA.

Summaries of personal skills and professional standards then detail the leadership skills and technical expertise authorities can expect from their HIA. These include the requirements of CIPFA and the other professional bodies' codes of ethics and professional standards to which the HIA as a qualified professional is bound. The personal skills described have been aligned with the most appropriate principle, but in many cases support other principles as well.

### Demonstrating compliance

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

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



## **CIPFA Statement on the role of the Head of Internal Audit (HIA) in Local Government**

**The Head of Internal Audit in a local authority plays a critical role in delivering the authority's strategic objectives by:**

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

**To perform this role the Head of Internal Audit:**

- 3 must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee;
- 4 must lead and direct an internal audit service that is resourced to be fit for purpose; and
- 5 must be professionally qualified and suitably experienced.

## \ principle 1

**The HIA in a local authority plays a critical role in delivering the authority's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.**

### **Promoting good governance**

Good governance is fundamental to establishing confidence in public services. All managers have a responsibility for good governance but the HIA has a role in promoting this and spreading good practice. The internal audit strategy must set out how the HIA will fulfil this role.

The Leadership Team collectively needs to set the tone that good governance is core to achieving strategic aims and in demonstrating that public money is used well. Local authorities operate a number of different democratic models and the Leadership Team might include executive committees, elected mayors, portfolio holders with delegated authorities and other key committees.

The HIA is not responsible for good governance but does have a role in helping to raise standards. This can be done by promoting the benefits of good governance as well as reporting on system failures. There are also benefits for the HIA in taking such an approach as this helps staff and others see the wider purpose of internal audit's work and the support that they can provide. The HIA and the authority need to be clear about the role of the HIA and others in the context of the authority's organisational structure. The HIA's role is to help promote good governance, advising and consulting officers as above on how they can best make an impact.

There are many ways to champion good governance. The HIA needs to assess the state of the authority's governance and then decide how they can make most impact. Benchmarking with other organisations can be helpful and case studies from similar organisations can be useful. The aim should be to show the benefits of good governance for staff and others and using training and guidance to do this. The role of champion also extends to the significant partnerships that the authority is a member of.

### **Assessing governance and management of existing risks**

HIAs must review and make a judgement on the whole range of controls including those relating to achieving value for money and the prevention and detection of fraud and corruption. In reaching the judgement the HIA might want to look at corporate arrangements, for example those regarding data quality and performance management arrangements. They may also want to test how these arrangements work by examining specific topics, for example major projects, decision making and implementation of programmes. Overall, internal audit's objectives must be aligned to the authority's and should help improve the effectiveness of public service delivery.

HIAs should be notified of all suspected or detected fraud, corruption or impropriety, to inform their opinion on the control environment and their work programme. The HIA is not responsible for managing the risk of fraud and corruption but, at the request of management, may assist with the investigation of suspected fraud or corruption.

There can often be many agencies reviewing controls within authorities. Internally there may be management consultants reviewing operational management. Externally there is a range of inspectors and other review agencies and service delivery partners. The HIA must understand the governance arrangements and assess the strengths of each of the parts. They then need to set out what reliance has been placed on the different elements

and why they believe the reliance to be well placed. Setting out this framework should also help in explaining to others how internal audit fits into the wider governance picture. In particular, the CFO also has governance responsibilities as outlined in CIPFA's Statement on the role of the Chief Financial Officer in Local Government.<sup>2</sup>

### **Advising on proposed developments**

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 to help ensure risks are properly identified and evaluated and appropriate controls built in. The HIA should consider what if any audit work needs to be done and also how the proposals fit with the authority's strategic objectives. The HIA should be involved at the outset to ensure any advice they give can be actioned. Giving advice over proposed developments is inevitably a less precise business than giving assurances on existing systems. 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.

Internal audit sometimes provide advice on current or proposed arrangements. This is an important role – it makes good use of internal audit's analytical skills and brings value to the organisation. But for this to work well the HIA must ensure that staff carrying out the work have suitable skills and that internal audit's objectivity is not compromised. The HIA must also ensure that there are sufficient resources to do the work and that other work and the HIA annual opinion is not compromised.

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<sup>2</sup> *The Role of the Chief Financial Officer in Local Government (CIPFA 2010)*

**Governance requirements****Principle 1**

- Set out the HIA's role in good governance and how this fits with the role of others, in particular the CFO, the Monitoring Officer and the Head of Paid Service.
- Ensure that the importance of good governance is stressed to all in the authority, through policies, procedures and training.
- Ensure that the HIA is consulted on all proposed major projects, programmes and policy initiatives.
- Require staff to report suspected or detected fraud, corruption or impropriety to the HIA.

**Core HIA responsibilities****Principle 1**

- Working with others (including the CFO, the Monitoring Officer and the Head of Paid Service) to promote the benefits of good governance throughout the organisation.
- Giving advice to the Leadership Team and others on the control arrangements and risks relating to proposed policies, programmes and projects.
- Promoting the highest standards of ethics and standards across the authority based on the principles of integrity, objectivity, competence and confidentiality.
- Demonstrating the benefits of good governance for effective public service delivery and how the HIA can help.
- Offering consultancy advice where the HIA considers that it is appropriate, drawing up clear terms of reference for such assignments.

**Personal skills and professional standards****Principle 1**

- Provide leadership by giving practical examples of good governance that will inspire others.
- Deploy effective facilitating and negotiating skills.
- Build and demonstrate commitment to continuous improvement.
- Demonstrate consultancy skills as appropriate – analytical, problem solving, influencing and communicating.

## \ principle 2

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

### **Objectivity**

The Leadership Team is responsible for the authority achieving its objectives and for underlying good governance, risk management and internal control. Managers are responsible for this in the areas for which they have responsibility. The HIA's unique role is to provide assurance and guidance on these arrangements and so it is important that the HIA is independent of operational management and is seen to provide objective views and opinions.

Whilst the HIA needs to be objective it is important that they understand the organisation and are pragmatic in their working relationships. The HIA should be concerned with effective action to improve the control environment. They must work to develop strong and constructive working relationships with managers and Members, creating mutual respect and effective communication. Providing objective information and advice to Members and others requires an understanding of ethics and the wider public interest as well as diplomacy.

To enable the HIA to be objective, he/she should have no operational responsibilities. In cases where the HIA does have operational responsibilities then alternative assurance arrangements must be made. In particular, the impact of this work and the audit planning and reporting arrangements for these areas must be reported to and agreed by the HIA's line manager and its impact reported to the Audit Committee.

### **Whole range of controls**

The Leadership Team need regular assurance that the authority has good governance arrangements. The framework that provides this will have a number of sources including line management, external inspectors and agencies and external auditors, but the main objective source is the HIA.

The HIA needs to give the authority a range of assurances, including reports on specific systems or work areas, new or developing systems (and the risks in areas being considered), partnerships and the overall annual opinion.

The annual HIA opinion is the most important output from the HIA. This is one of the main sources of objective assurance that Chief Executives have for their annual governance statement. 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. Audit planning must be comprehensive and consider the whole control environment, so that the opinion is based on a picture of the whole organisation. The audit work should address key risk areas and draw attention to significant concerns and what needs to be done. The HIA must express concerns where they exist.

### **Evidence based assurance**

The HIA's assurance must be well founded if it is to give proper comfort to those who ask for it, and to improve governance arrangements. This means that internal audit planning must be well focused. Individual audits must be carried out in a logical and systematic way, based on sufficient, relevant and reliable evidence and with the work

being subject to proper supervision and review. HIAs must also ensure that their reports are balanced, focusing on key risks and issues and making practical recommendations.

The HIA may look to partners and other agencies for assurance. Here the HIA must understand the basis for the assurance and its adequacy, and therefore whether the HIA needs to carry out any additional review work.

Sometimes the HIA will be asked to give assurances to partners or other organisations such as government departments on the authority's own arrangements. The HIA should carefully consider, taking advice as necessary, the scope and extent to which reliance should be placed on it and any potential reputational risks.

In both circumstances the scope and purpose of assurances given and received should be agreed by the Audit Committee. A summary of assurances given and relied upon should also be included in the HIA's annual report.

One of the HIA's key relationships must be with the external auditor. The roles of internal and external audit are different and they must be independent of each other. But both are concerned with the authority's control environment and both use an objective, risk based approach in coming to their conclusions. The HIA must liaise closely with external audit in drawing up strategies and plans and understand where and how the external auditor will be relying on the HIA. This should help ensure that audit resources are used most effectively.

### **Develop and implement a risk based audit strategy**

Risk management is key to the effective delivery of public services. Organisations are taking a more positive view of risk and are becoming more mature in how they identify, measure, and manage risks.

The HIA must ensure that the internal audit strategy reflects risk management best practice. The starting point is to review the authority's strategic objectives and how it plans to achieve these. The risks to achieving these must be considered and the HIA needs to review how the risks are captured in risk registers and the action plans that are in place. The HIA will draw on the authority's risk register when drawing up the internal audit strategy and plans. The extent to which he or she does this will depend on how mature the authority is at identifying key risks and taking appropriate action to address them.

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

**Governance requirements****Principle 2**

- Set out the responsibilities of the HIA, which should not include the management of operational areas.
- Ensure that internal audit is independent of external audit.
- Where the HIA does have operational responsibilities the HIA's line manager and the Audit Committee should specifically approve the IA strategy for these and associated plans and reports and ensure the work is independently managed.
- Establish clear lines of responsibility for those with an interest in governance (eg Head of Paid Service, Monitoring Officer, Head of Paid Service, Audit Committee, Members). This covers responsibilities for drawing up and reviewing key corporate strategies, statements and policies.
- Establish clear lines of reporting to the Leadership Team and to the Audit Committee where the HIA has significant concerns.
- Agree the terms of reference for internal audit with the HIA, the Audit Committee and the CFO, as well as with the Leadership Team.
- Set out the basis on which the HIA can give assurances to other organisations and the basis on which the HIA can place reliance on assurances from others.
- Ensure that comprehensive governance arrangements are in place, with supporting documents covering eg risk management, corporate planning, anti fraud and corruption and whistleblowing.
- Ensure that the annual internal audit opinion and report are issued in the name of the HIA.
- Include awareness of governance in the competencies required by members of the Leadership Team.
- Set out the framework of assurance that supports the annual governance statement and identify internal audit's role within it. The HIA should not be responsible for preparing the report.
- Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team.

**Core HIA responsibilities****Principle 2**

- Giving assurance on the control environment. This includes risk and information management and internal controls across all systems.
- Reviewing the adequacy of key corporate arrangements including eg risk strategy, risk register, anti fraud and corruption strategy, corporate plan.
- Producing an evidence based annual internal audit opinion on the authority's control environment.
- Working closely with others to ensure that sufficient and relevant evidence is used. Where relying on others, clarifying the degree and basis for the reliance.
- Reviewing significant partnership arrangements and major services provided by third parties and the controls in place to promote and protect the authority's interests. Assessing whether lines of responsibility and assurance are clear.
- Liaising closely with the external auditor to share knowledge and to use audit resources most effectively.
- Producing an internal audit strategy that fits with and supports the authority's objectives.
- Reviewing the authority's risk maturity (including the authority's own assessment) and reflecting this in the strategy.
- Consulting stakeholders, including senior managers and Members on the internal audit strategy.
- Setting out how the HIA plans to rely on others for assurance on the authority's controls and risks and taking account of any limitations in assurance given by others.
- Liaising with external inspectors and review agencies where appropriate when drawing up the internal audit strategy.
- Liaising with the external auditor on the internal audit strategy, but not being driven by external audit's own priorities.

**Personal skills and professional standards****Principle 2**

- Give clear, professional and objective advice.
- Report on what is found, without fear or favour.
- Demonstrate integrity to staff and others in the authority.
- Exercise sound judgement in identifying weaknesses in the authority'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 the Head of Paid Service, the Monitoring Officer, the CFO, Audit Committee and Members.
- Be concerned for action - influencing the Leadership Team, Audit Committee and others to ensure that the HIA's recommendations are implemented.
- Be a role model, dynamic, determined, positive, robust and with resilient leadership, able to inspire confidence and respect and exemplify high standards of conduct.

## \ principle 3

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

### **Senior manager**

HIAs face increasing challenges and higher expectations from stakeholders, especially in helping authorities look forward. The HIA must be at the heart of the organisation, challenging and supporting the Leadership Team with authority and credibility. He or she should also be seen as a leader, promoting improvement and good governance. To do this effectively, making an impact and adding value, the HIA position must be a senior manager.

There is a range of guidance concerning line management responsibility for the HIA<sup>3</sup>. What is paramount is that the reporting line must leave the HIA free from interference in setting the scope of internal audit's work, in coming to conclusions and in reporting the results. They must also have unfettered access across the authority, especially to the Chief Executive, Board and Audit Committee Chair. The HIA should report to the Chief Executive, the CFO or another member of the Management Team.

The HIA role must be filled by a nominated 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 authority 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 authority, including the Audit Committee, must be clearly set out as part of the authority's governance framework. In practice it is likely that the HIA should be the person who is responsible for drawing up the internal audit strategy and plan and for issuing the HIA annual internal audit opinion.

### **Engagement with the Leadership Team**

The Leadership Team in local government takes a variety of forms. Collectively the Leadership Team is responsible for setting the strategic direction for the authority, its implementation and the delivery of public services. The HIA must also have a right of access to individual members of the Leadership Team. Whilst it is not appropriate for the HIA to be a member of the Leadership Team it is vital that the HIA attends key meetings where they consider it necessary. The HIA should be well placed to support the Leadership Team in understanding the governance, risk management and control arrangements. Examples of this might include presenting the internal audit strategy or the annual internal audit opinion or taking part in discussions about the annual governance statement or planned major policies, projects or system changes.

### **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 authority 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 the available resources.

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<sup>3</sup> For example, in central government and the NHS, internal audit standards state that the HIA should report to the Chief Executive. In local government CIPFA's Code of Practice for internal audit states that the HIA should report to a member of the Management Team.

<b>Governance requirements</b>	<b>Principle 3</b>
<ul style="list-style-type: none"> <li data-bbox="177 327 1406 454">■ 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.</li> <li data-bbox="177 488 1406 616">■ Ensure that where the HIA is an employee that they are sufficiently senior and independent within the authority's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to the Management Team.</li> <li data-bbox="177 649 1406 777">■ Ensure that where the HIA is an employee the HIA is line managed by a member of the Management Team. Where the HIA is not an employee then the reporting line must be clearly set out in the contract or agreement with the internal audit supplier.</li> <li data-bbox="177 810 1406 846">■ Establish an Audit Committee in line with guidance and good practice.</li> <li data-bbox="177 880 1406 916">■ Set out the HIA's relationship with the Audit Committee and its Chair.</li> <li data-bbox="177 949 1406 1198">■ Ensure that the authority's governance arrangements allow the HIA: <ul style="list-style-type: none"> <li data-bbox="236 969 1406 1005">▪ to bring influence to bear on material decisions reflecting governance</li> <li data-bbox="236 1039 1406 1099">▪ direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit</li> <li data-bbox="236 1133 1406 1193">▪ to attend meetings of the Leadership Team and Management Team where the HIA considers this to be appropriate.</li> </ul> </li> <li data-bbox="177 1229 1406 1290">■ Set out unfettered rights of access for internal audit to all papers and all people in the organisation, as well as appropriate access in (significant) partner organisations.</li> <li data-bbox="177 1323 1406 1384">■ Set out the HIA's responsibilities relating to partners including joint ventures and outsourced and shared services.</li> </ul>	

<b>Core HIA responsibilities</b>	<b>Principle 3</b>
<ul style="list-style-type: none"> <li data-bbox="177 1556 1406 1617">■ Escalating any concerns through the line manager, CFO, Monitoring Officer, Head of Paid Service, Audit Committee, Leadership Team and external auditor as appropriate.</li> <li data-bbox="177 1650 1406 1711">■ Supporting the Audit Committee in reviewing its own effectiveness and advising the Chair and line manager of any suggested improvements.</li> <li data-bbox="177 1744 1406 1805">■ Consulting stakeholders, including senior managers and Members on the internal audit strategy.</li> </ul>	

**Personal skills and professional standards****Principle 3**

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

## \ principle 4

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

### **Meeting the needs of the business**

Effective governance is critical in local government and internal audit needs to play its part. The HIA must have a clear but wide ranging brief. This includes reviewing the key underlying systems and controls, reviewing arrangements for preventing fraud and corruption and also the arrangements for achieving value for money.

The HIA must have a firm grasp and understanding of the authority'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. The HIA must ensure that there is sufficient depth of internal audit expertise and experience to do this well, so that he/she is able to engage effectively with managers and others and challenge where appropriate.

The internal audit resources available must be proportionate to the size, complexity and risk profile of the authority and must be enough for the HIA to give a reliable opinion on the authority's control environment. Responsibility for ensuring that an effective and appropriately resourced internal audit service is in place rests with the authority. The authority needs independent assurance over the quality of internal audit's work and should ensure that a regular external assessment is carried out.

The HIA must ensure that the Audit Committee has a clear understanding of the requirement for internal audit to review the whole system of internal control. The HIA must set out the audit coverage and audit resources needed to give a sound, evidence based annual audit opinion. The HIA must advise the Audit Committee, the CFO 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.

### **Appropriately developed internal audit skills**

A great deal of reliance is placed on the work of internal audit and the HIA must ensure that 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 are continuously developed.

The HIA must assess the staffing needed to make sound judgements on the whole range of the authority's governance arrangements. The CFO also has a crucial role to play in ensuring that the authority has an adequate internal audit. As noted in CIPFA's Chief Financial Officer in Local Government Statement one of their duties is 'compliance with the statutory requirements for accounting and internal audit'.

The HIA needs well developed, motivated staff to make an impact at senior levels in the authority. There may also be a need to buy in specialist skills which are not frequently used. The challenge for the HIA is to have the right mix and for the service to operate as a team, with staff being effective ambassadors for internal audit. The HIA has a particular responsibility to promote internal audit as a good career development opportunity.

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 see that their staff comply with the relevant internal audit standards and must

have systems to verify this. More widely the HIA should work with colleague HIAs and others to ensure that they and the team are up to date on current issues affecting their authority and on internal audit techniques and developments.

**Governance requirements****Principle 4**

- Provide the HIA with the resources, expertise and systems necessary to perform their role effectively.
- Ensure that the Audit Committee sets out a performance framework for the HIA and their team and assesses performance and takes action as appropriate.
- Ensure that there is a regular external review of internal audit quality.
- Ensure that where the HIA is from another organisation that they do not also provide the external audit service.

**Core HIA responsibilities****Principle 4**

- Leading and directing the internal audit service so that it makes a full contribution to and meets the needs of the authority and external stakeholders.
- Determining the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit's objectives; using a full range of resourcing options including consultancy, working with others and buying in where appropriate.
- Informing the CFO, the Leadership Team and Audit Committee if there are insufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given.
- Implementing robust processes for recruitment of internal audit staff and/or the procurement of internal audit services from external suppliers.
- Ensuring that the professional and personal training needs for staff are assessed and seeing that these needs are met.
- Developing succession plans and helping staff with their career progression.
- Establishing a quality assurance and improvement programme that includes:
  - ensuring that professional internal audit standards are complied with
  - reviewing the performance of internal audit and ensuring that the service provided is in line with the expectations and needs of its stakeholders
  - providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and Audit Committee; annually reporting achievements against targets
  - putting in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that audit plans, work and reports are evidence based and of good quality
  - ensuring that any internal auditors declare any interests that they have
  - seeking continuous improvement in the internal audit service.
- Keeping 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.

- Demonstrating how internal audit adds value to the authority.

**Personal skills and professional standards**

**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.
- Set and monitor meaningful performance objectives for staff.
- 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. In particular, ensuring that internal auditors identify and report any conflicts of interest and act appropriately.
- Ensure, when necessary, that outside expertise is called upon for specialist advice not available within the internal audit service.
- Promote discussion on current governance and professional issues and their implications.

## \ principle 5

**The HIA in a local authority must be professionally qualified and suitably experienced**

### **Demonstrating professional and interpersonal skills**

The HIA must be able to demonstrate his/her own professional credibility to exercise influence throughout the authority. The HIA must be professionally qualified. This means holding a full Consultative Committee of Accountancy Bodies (CCAB) qualification or being a chartered member of the Chartered Institute of Internal Auditors (CMIIA). As a member of a professional body, the HIA's skills, knowledge and expertise will have been tested by examination and must be continuously developed in a structured and monitored context. 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 communicate complex information in a clear and credible way. He/she 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 be sufficiently forceful to intervene with authority if governance or ethical principles need to be asserted or defended. The HIA must work in partnership with a wide range of people and organisations and winning their confidence is key. He/she 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 their authority. He/she must build effective working relationships with the Audit Committee without damaging relationships with the Leadership Team. This requires tact and diplomacy.

### **Applying business and professional experience**

The HIA must have an understanding and commitment to the authority's wider business and its delivery objectives, to inspire respect, confidence and trust amongst colleagues, with the Leadership Team, the Audit Committee and other stakeholders.

The HIA must have a good understanding of business processes and governance including strategic planning and performance, and financial and risk management. He/she must also be aware of current issues facing organisations and internal auditors. The HIA should be seen as a catalyst in improving governance and internal control and also supporting the authority in its wider business objectives. To do this the HIA needs to look forward as well as at the authority as it currently operates. The HIA must demonstrate leadership by personally setting a tone that good governance, risk management and internal control matter to everyone in the authority.

**Governance requirements****Principle 5**

- Appoint a professionally qualified HIA whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the organisation.
- Ensure that the HIA has the skills, knowledge, experience and resources to perform effectively in his or her role.

**Personal skills and professional standards****Principle 5**

- Be a full member of an appropriate professional body and have an active programme for personal professional development.
- Adhere to professional internal auditing (and where appropriate accounting and auditing) standards.
- Demonstrate a range of skills including communicating, managing and influencing, as well as an understanding of IT and consultancy.
- Have prior experience of working in internal audit.
- 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 as appropriate in order to demonstrate an understanding of the full range of the authority's activities and processes.

## \ appendix 1

### Legislative background

#### Internal audit

All principal local authorities in the UK must make provision for internal audit. In England this is covered by the 2003 Accounts and Audit Regulations (regulation 6) which requires that: 'a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices...'. There is a similar requirement in Wales in the 2005 Accounts and Audit Regulations (regulation 6) and in Ireland in the Local Government (Account and Audit) Regulations (Northern Ireland) 2006 (regulation 3). In Scotland there is no specific reference to internal audit but section 95 of the Local Government (Scotland) Act 1973 requires authorities to 'make arrangements for the proper administration of their financial affairs'.

CIPFA's Code of Practice for Internal Audit in Local Government in the UK (2006) represents non statutory proper practice, and all principal local authorities in the UK must make provision for internal audit in accordance with the Code.

#### Statutory officers

In local government certain officers are appointed in accordance with legislation that gives them personal responsibilities to report matters to the Council. These responsibilities cannot be delegated and are important to the successful delivery of the role of the HIA.

#### England and Wales

##### CFO

Section 151 of the Local Government Act 1972 (England and Wales) requires that every local authority in England and Wales should 'make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. The words "proper administration" are not statutorily defined nor have they received judicial consideration. Section 58 of the Local Government Act 1958 had somewhat narrower wording requiring authorities to make "safe and efficient" arrangements for the receipt and payment of money. "Proper administration" requires a somewhat wider consideration of all aspects of local authority financial management and should include:

- compliance with the statutory requirements for accounting and internal audit
- ensuring the Authority's (and ultimately its members') responsibility for securing proper administration of its financial affairs (*Lloyd v McMahon* (1982) AC 625)
- proper exercise of a wide range of delegated powers both formal and informal (*Provident Mutual Life Assurance Association v Derby City Council* (1981) 1 WCR 173)
- responsibility for managing the financial affairs of the local authority in all its dealings
- recognition of the fiduciary responsibility owed to local taxpayers (*Attorney General v De Winton* (1906) 2 CH 106).

This view is strengthened by Section 113 of the Local Government Finance Act 1988 which requires the responsible officer under Section 151 of the 1972 Act to be a member of a specified accountancy body.

The responsible officer under Section 151 of the 1972 Act had their duties significantly extended by Section 114 of the 1988 Local Government Finance Act which requires a report to all the authority's Members to be made by that officer, in consultation with the Council's Monitoring Officer, if there is, or is likely to be unlawful expenditure or an unbalanced budget. Before doing so the CFO should consult with both the Head of Paid Service and with the Monitoring Officer. Such a report should be copied to the external auditor and the council must consider the report within 21 days and decide whether it agrees or disagrees with the views in the report and what action it proposes to take. Likewise the CFO must report to the authority where s(he) believes that the authority's expenditure is likely to exceed available resources. The authority is prevented from entering into any agreements incurring expenditure until the council has considered the report.

The CFO also has a specific role with regard to stewardship. This includes ensuring that the governance structures codify financial control, internal control, risk management and assurance, as well as defining a framework of financial accountabilities and reporting.

### **Monitoring Officer**

Section 5 of the Local Government and Housing Act 1989 requires local authorities to appoint a Monitoring Officer. This requires the Monitoring Officer to report to Council on any proposal that has given rise to, or is likely to, or would give rise to any illegality, maladministration or breach of the statutory code.

The Monitoring Officer role is often, but not always, filled by the authority's Head of Legal Services or equivalent. The Monitoring Officer normally acts as principal adviser to Members and to Standards Committees. They are expected to have access to all meetings, papers and authority officers and Members. They would normally meet regularly with the other 'statutory officers' – the Head of Paid Service and the CFO.

The Local Government Act 2000 requires that they investigate any misconduct and that they maintain registers of interests for Members. The Monitoring Officer cannot also be the CFO or (in accordance with the Local Government Act 2000) the Head of Paid Service.

### **Head of Paid Service**

Section 4 of the Local Government and Housing Act 1989 requires authorities to appoint a Head of Paid Service. They are responsible for:

- the manner in which the discharge by the authority of its different functions is coordinated
- the number and grades of staff required by the authority for the discharge of its functions
- the organisation of the authority's staff and the appointment of and the proper management of the authority's employees.

The Head of Paid Service may make a report to the authority regarding these issues. The role is usually, but not always, filled by the Chief Executive.

## **Scotland**

### **Chief Financial Officer**

In Scotland Section 95 of the Local Government (Scotland) Act 1973 states that: -  
"every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs." The same considerations as to the meaning of 'proper administration' as set out above apply in Scotland.

### **Monitoring Officer**

Section 5 of the Local Government and Housing Act 1989 also applies in Scotland. The Local Government Act 2000 does not apply in Scotland.

### **Head of Paid Service**

Section 4 of the Local Government and Housing Act 1989 also applies in Scotland.

## **Northern Ireland**

### **Chief Financial Officer**

In Northern Ireland Section 54 of the Local Government Act (Northern Ireland) 1972 requires that "A council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its Chief Financial Officer." The Northern Ireland Act uses the narrower wording previously used under the 1958 Local Government Act.

### **Monitoring Officer and Head of Paid Service**

There is no legislation here setting out specific statutory responsibilities for a monitoring officer or head of paid service.