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To: Governance and Audit Committee – 16 March 2011

Subject: **CIPFA STATEMENT ON THE ROLE OF THE HEAD OF INTERNAL AUDIT IN PUBLIC SERVICE ORGANISATIONS**

Classification: Unrestricted

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Summary: In May 2010 CIPFA began consultation on its Statement on the role of the Head of Internal Audit in public service organisations. This paper provides an update for the Committee and provides an initial assessment as to compliance against the governance requirements of the document.

## **FOR ASSURANCE**

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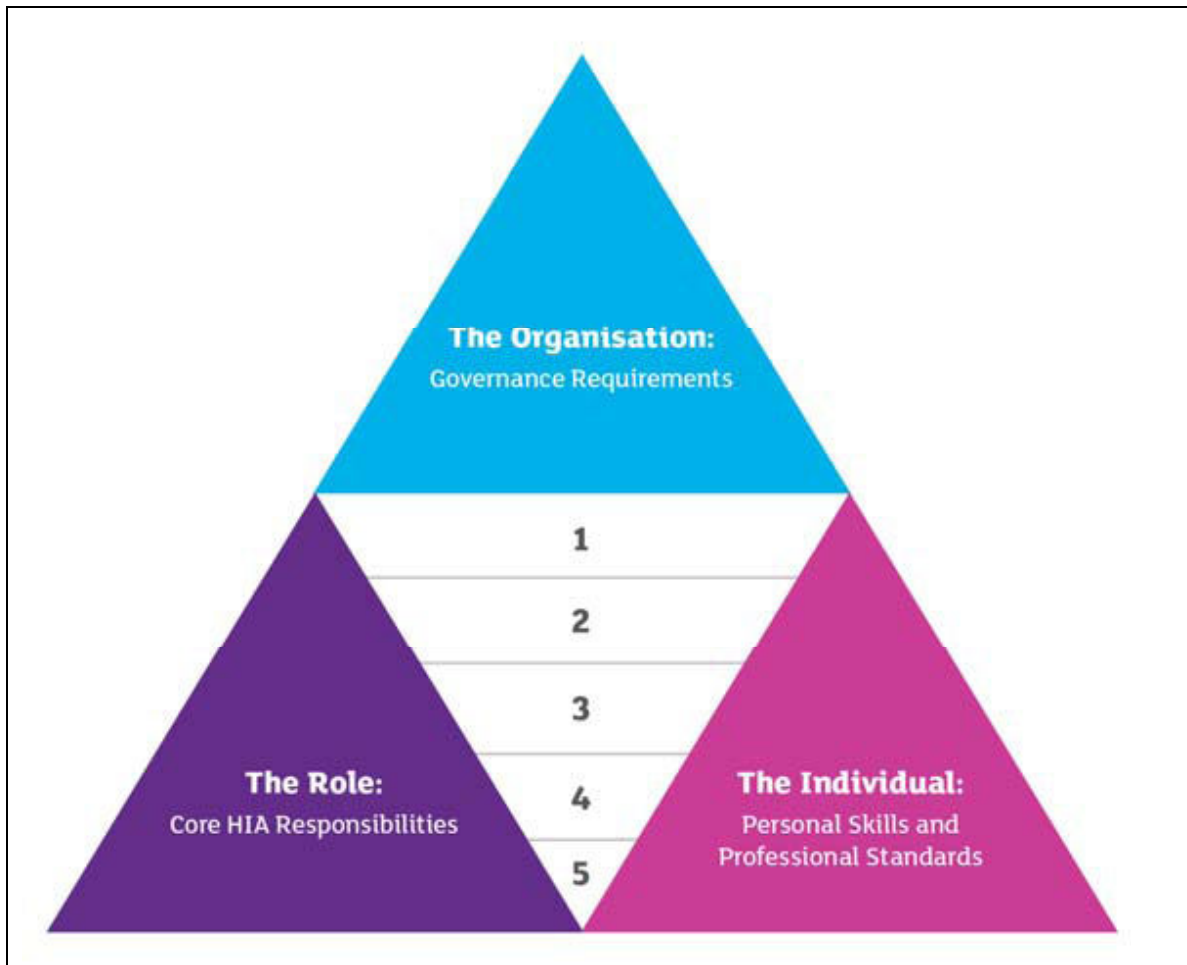
### **Introduction and background**

1. In May CIPFA published its consultation on its Statement on the role of the Head of Internal Audit (HIA) in public service organisations, and in November 2010 published the final version. The statement sets out best practice for HIAs to aspire to and for Audit Committees and others to measure internal audit against. As well as articulating the core responsibilities of the HIA, the statement also identifies the personal and professional skills needed by such an individual.
2. During the consultation CIPFA recognised that it needed a local government specific Statement to reflect the statutory responsibility of the Chief Financial Officer and others. A draft for this statement was published in December 2010, and was subject to consultation until 19<sup>th</sup> January 2011.

### **Overview of the Statements**

3. Both versions of the Statement set out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations, and the organisational arrangements needed to support them. For each principle the Statements set out the governance arrangements required within an organisation to ensure that HIAs are able to operate effectively and perform their core duties. The Statements also sets out the core responsibilities of the HIA.
4. The framework, shown in diagram 1 below, follows that used previously in the Statement on the Role of the Chief Financial Officer.

**Diagram 1:**



*Source: CIPFA*

5. The statement recognises that the Head of Internal Audit will play a critical role in delivering the organisation's strategic objectives by:
  - championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
  - giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
6. To perform this role the Head of Internal Audit:
  - must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
  - must lead and direct an internal audit service that is resourced to be fit for purpose; and
  - must be professionally qualified and suitably experienced.
7. These are the five principles at the heart of the framework proposed by CIPFA.

## **Demonstrating compliance**

8. The Statements support CIPFA's work to strengthen governance, risk management and internal audit across public services. It is intended to allow the "Leadership Team" of a public service organisation to benchmark its existing arrangements against a defined framework. As expected CIPFA will require that the Council should report publically on compliance against the statement to demonstrate their commitment to good practice.

## **Initial view of compliance**

9. A detailed review against the governance requirements of the draft Local Government statement has been completed and is attached at annex 1. Compliance is achieved in most areas, with the only exceptions being:
  - There is no mechanism in place to ensure that the Head of Audit and Risk is consulted on all proposed major projects, programmes and policy initiatives.
  - Responsibilities for drawing up and reviewing key corporate strategies, statements and policies do not currently include the Head of Audit and Risk.
  - The terms of reference for internal audit have not been agreed with CMT.
  - The Head of Audit and Risk prepares the draft annual governance statement.
  - The basis on which the Head of Audit and Risk can give assurances to other organisations and the basis on which the Head of Audit and Risk can place reliance on assurances from others has not been documented or agreed.
  - The Head of Audit and Risk 's responsibilities relating to partners including joint ventures and outsourced and shared services have not been documented or agreed.
10. It is not anticipated that the final version of the Local Government statement will differ greatly from the consultation draft. However the compliance position will be update once the final version has been published.
11. These issues will be considered for disclosure as part of the Annual Governance Statement, although none are considered significant failures of the role. As the Council's Code of Corporate Governance and supporting documentation is refreshed, suitable procedures will be introduced.

## **Recommendations**

12. Members are asked to:
  - note the publication of the Statement on the role of the Head of Internal Audit in public service organisations, and that a Local Government version is being developed, and;
  - note the current compliance position.

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Background Papers  
CIPFA Statement on the role of the Head of Internal Audit in public service organisations

Governance requirement	KCC status
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.	Arrangements are in place
Ensure that the importance of good governance is stressed to all in the authority, through policies, procedures and training.	Arrangements are in place
Ensure that the HIA is consulted on all proposed major projects, programmes and policy initiatives.	There is no mechanism in place for this to happen. Consultation is by invitation.
Require staff to report suspected or detected fraud, corruption or impropriety to the HIA.	Arrangements are in place
Principle 2	
Set out the responsibilities of the HIA, which should not include the management of operational areas.	Arrangements are in place
Ensure that internal audit is independent of external audit	Arrangements are in place
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.	Arrangements are in place
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	Lines of responsibility are in place. Responsibilities for drawing up and reviewing key corporate strategies, statements and policies do not currently include the Head of Audit and Risk

Governance requirement	KCC status
Establish clear lines of reporting to the Leadership Team and to the Audit Committee where the HIA has significant concerns.	Arrangements are in place
Agree the terms of reference for internal audit with the HIA, the Audit Committee and the CFO, as well as with the Leadership Team.	Terms of reference for internal audit have been agreed with the HIA, the Audit Committee and the CFO, but not 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.	No arrangements in place
Ensure that comprehensive governance arrangements are in place, with supporting documents covering eg risk management, corporate planning, anti fraud and corruption and whistleblowing	Arrangement are in place and will be enhanced with new SORPs
Ensure that the annual internal audit opinion and report are issued in the name of the HIA.	Arrangements are in place
Include awareness of governance in the competencies required by members of the Leadership Team	Arrangements are in place (TBC)
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.	Arrangements are in place although the Head of Audit and Risk does prepare the draft report.
Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team	Arrangements are in place
<b>Principle 3</b>	
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	Arrangements are in place

Governance requirement	KCC status
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 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.	Arrangements are in place
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.	Arrangements are in place
Establish an Audit Committee in line with guidance and good practice.	Arrangements are in place
Set out the HIA's relationship with the Audit Committee and its Chair.	Arrangements are in place
<p>Ensure that the authority's governance arrangements allow the HIA:</p> <ul style="list-style-type: none"> <li>• to bring influence to bear on material decisions reflecting governance</li> <li>• direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit</li> <li>• to attend meetings of the Leadership Team and Management Team where the HIA considers this to be appropriate.</li> </ul>	Arrangements are in place
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.	Arrangements are in place

Governance requirement	KCC status
Set out the HIA's responsibilities relating to partners including joint ventures and outsourced and shared services.	No arrangements in place
<b>Principle 4</b>	
Provide the HIA with the resources, expertise and systems necessary to perform their role effectively.	Arrangements are in place
Ensure that the Audit Committee sets out a performance framework for the HIA and their team and assesses performance and takes action as appropriate.	Arrangements are in place
Ensure that there is a regular external review of internal audit quality.	Arrangements are in place
Ensure that where the HIA is from another organisation that they do not also provide the external audit service	N/A
<b>Principle 5</b>	
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.	Arrangements are in place
Ensure that the HIA has the skills, knowledge, experience and resources to perform effectively in his or her role.	Arrangements are in place