

# **WIRRAL COUNCIL**

## **AUDIT AND RISK MANAGEMENT COMMITTEE**

**28 SEPTEMBER 2010**

### **REPORT OF THE DIRECTOR OF FINANCE**

#### **THE ROLE OF THE HEAD OF INTERNAL AUDIT**

##### **1. EXECUTIVE SUMMARY**

- 1.1. In May 2010, CIPFA issued a consultation draft on the Role of the Head of Internal Audit in public service organisations.

##### **2. BACKGROUND**

- 2.1. CIPFA's opinion is stated in a letter that accompanied the issue of the consultation draft. It is that the Head of Internal Audit (HIA) occupies a unique position in any organisation, providing objective assurance and helping the organisation to achieve its objectives. In uncertain times, the HIA is more important than ever and more is expected especially in helping organisations to improve and champion good governance, and their advice and help should be sought.
- 2.2. CIPFA believes that it is important to issue a statement similar to the Statement on the Role of the Chief Financial Officer to raise the profile and clarify the role of the HIA. It sets out best practice for the HIA to aspire to and for Audit Committees and others to measure internal audit against. The draft sets out an overarching principles-based framework which is intended to apply to all HIA's in the UK, irrespective of the particular part of the public services in which they work. The Statement draws on the best practice and regulatory requirements in public services, as well as the requirements of CIPFA, other professional accountancy bodies' and the Institute of Internal Auditors' codes of ethics and professional standards.
- 2.3. Introducing the draft Statement, CIPFA states that the demand for better public services within a complex environment has strengthened the need for effective governance. Good governance requires a focus on the organisation'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. Internal audit is one of the cornerstones of effective governance.

- 2.4. The HIA is responsible for reviewing and reporting on the adequacy of the organisation'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 has to win the support and trust of others, so that he/she is listened to, and the HIA role as a critical friend means that sometimes difficult messages must be given and acted on for the HIA to act as a catalyst for positive change and continual improvement in governance.

### 3. **THE STATEMENT**

- 3.1 The Statement sets out five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them. For each principle the Statement sets out the governance arrangements required within an organisation to ensure that the HIA is able to operate effectively and perform their core duties.

### 4. **THE PRINCIPLES**

#### 4.1 **Principle 1**

The HIA in a public service organisation champions 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.

##### Governance Requirements

- Ensure that the HIA role and internal audit objectives include promoting good governance.
- Ensure that the importance of good governance is stressed to all in the organisation, through policies, procedure and training.
- Ensure that the HIA is consulted on all proposed major projects, programmes and policy initiatives.

#### 4.2 **Principle 2**

The HIA in a public service organisation gives an objective and evidence based opinion on all aspects of governance, risk management and internal control.

##### Governance Requirements

- Set out the responsibilities of the HIA, which should not include the management of operational areas.
- Where the HIA does have operational responsibilities the HIA's line manager 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 (e.g. Chief Executive, Chief Legal Officer, Chief Financial Officer, Audit Committee, non-executive directors/elected representatives). 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 and the Audit Committee 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 assurance from others.
- Ensure that comprehensive governance arrangements are in place with supporting documents covering e.g. risk management, corporate planning, anti fraud and corruption and whistle blowing.
- Ensure that the annual governance report is reviewed but not prepared by internal audit.
- Ensure that the annual internal audit opinion and report are issued in the name of the HIA.
- Ensure that the views of the HIA are sought and taken into account when major projects and changes are being considered.
- Include awareness of governance and internal audit in the competencies required by members of the Leadership Team.
- Set out the framework of assurance that supports the annual governance report and identify the internal audit role within it.
- Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team.

#### 4.3. **Principle 3**

The HIA in a public service organisation must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.

##### Governance Requirements

- 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 that they are sufficiently senior within the organisation structure to allow them to carry out their role effectively.
- 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.
- Establish an Audit Committee in line with guidance and good practice.
- Set out the HIA's relationship with the Audit Committee and its Chair.

- Ensure that the organisation's governance arrangements allow the HIA:
  - to bring influence to bear on material decisions reflecting governance.
  - to have direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit.
  - to attend meetings of the Leadership Team where 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 (significant) partner organisations.
- Set out the HIA responsibilities relating to partners , joint ventures and outsourced and shared services.

#### 4.4 **Principle 4**

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

##### Governance Requirements

- Provide the HIA with the resources, expertise and systems necessary to perform their role effectively.
- Set out the role of the Chair of the Audit Committee in the appointment of the HIA.
- 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 periodic (at least every five years) external review of internal audit quality.
- Ensure that where internal audit is provided by a firm that the same firm does not also provide the external audit service.

#### 4.5 **Principle 5**

The HIA in a public service organisation must be professionally qualified and suitably experienced.

##### Governance Requirements

- 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.

### 5. **PROPOSED IMPLEMENTATION AND COMPLIANCE**

- 5.1 Implementation will be effective in time for inclusion with the Annual Governance Statement (AGS) for 2011. The AGS is signed by the Leader of the Council and the Chief Executive prior to review by the Audit Commission. Any failure to comply with the five principles should be explained in the AGS.

5.2. The Council currently complies with all the principles.

6. **FINANCIAL AND STAFFING IMPLICATIONS**

6.1. There are none arising from this report.

7. **LOCAL MEMBER SUPPORT IMPLICATIONS**

7.1. There are no local Member support implications.

8. **LOCAL AGENDA 21 STATEMENT**

8.1. There are no local agenda 21 implications.

9. **PLANNING IMPLICATIONS**

9.1. There are no planning implications.

10. **EQUAL OPPORTUNITIES IMPLICATIONS**

10.1. There are no equal opportunities implications.

11. **COMMUNITY SAFETY IMPLICATIONS**

11.1. There are no community safety implications.

12. **HUMAN RIGHTS IMPLICATIONS**

12.1. There are no human rights implications.

13. **BACKGROUND PAPERS**

13.1. The Role of the Head of Internal Audit in public service organisations  
Consultation Draft - CIPFA May 2010

14. **RECOMMENDATION**

14.1. That compliance with the five principles be noted.

IAN COLEMAN  
DIRECTOR OF FINANCE