

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

in public service organisations

**Consultation draft  
May 2010**

## **CIPFA Statement on the role of the Head of Internal Audit in public service organisations**

**The Head of Internal Audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:**

- 1 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
- 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 organisation, 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

The Head of Internal Audit (HIA) occupies a critical position in any organisation, helping it to achieve its objectives by giving assurance on its internal control arrangements and playing a key role in promoting good corporate governance. The aim of this Statement is to clarify the role of the HIA in public service organisations and to raise its profile.

Organisations 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 assessing these arrangements and the risks that organisations face objectively, and giving appropriate assurances. HIAs must also provide leadership, promoting and helping organisations achieve good governance and address future challenges.

HIAs need to review the whole system of control, both financial and non-financial, and to focus on the areas where assurance is most needed. In most public service organisations the HIA has to give an annual opinion on the organisation's governance arrangements which is used by Chief Executives as a primary source of evidence for their annual governance report.

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

The Statement is principles based and should be relevant for all public service organisations and their HIAs. 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 believe organisations should see the Statement as best practice and use it to assess their HIA arrangements to 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.

### **Mike More**

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

### **Steve Freer**

Chief Executive  
CIPFA

## \ definitions used throughout the document

The public services have a variety of organisational structures and governance arrangements. The following terms are used throughout the Statement in a generic sense and terms in use in different parts of the public services in the UK can be substituted for the generic terms used here. The terms used here are consistent with the definitions used in CIPFA's Statement on the role of the chief financial officer in public service organisations and with CIPFA's Code of Practice for internal audit in local government. There are some differences between that Code and the definitions used by the Institute for Internal Auditors, but they are broadly similar and any differences should not hinder the application of the Statement.

<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</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</li> </ul>

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

	<p>resources and for securing continuous improvement</p> <ul style="list-style-type: none"> <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>
<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>	<p>An audit that:</p> <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 risk management framework, 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 services which are carried out to improve services and to add value.
<b>Annual governance report</b>	The mechanism by which an organisation publicly reports on its governance arrangements each year.

<p><b>Public service organisation</b></p>	<p>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.</p>
<p><b>Assurance</b></p>	<p>A confident assertion, based on evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance may be set out and it may be qualified if full comfort cannot be given.</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 of the organisation's internal control arrangements and which is used by the Chief Executive in some public service organisations as a key source in drafting the annual governance report.</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 a public service organisation 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.

### **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 their 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'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 organisations 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 needed for them to be met, that have shaped the CIPFA Statement on the role of the HIA in public service organisations.

## \ 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 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; and
- the individual.

For each principle the Statement sets out the governance arrangements required within an organisation 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 organisations 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 public service organisation, whether executive, non-executive or elected, to benchmark its existing arrangements against a defined framework.

Public service organisations operate within a variety of legal and regulatory structures, and there is a huge range in size and scope of services delivered. The Statement therefore focuses on the principles that capture the essential characteristics of the HIA role in any public service organisation.

CIPFA recommends that organisations should 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 organisations should report publicly where their arrangements do not conform to the compliance framework in this Statement, explaining the reason for this, and how they achieve the same impact.

### Status of the Statement

The Statement sets out what CIPFA considers to be best practice for HIAs. It does not have the status of a CIPFA code, nor does it replace the sector-specific guidance or the codes and professional standards that underpin accountancy and internal audit bodies' competency and disciplinary frameworks. The aim is that standard setters and regulators across public services should draw on the Statement when reviewing their own guidance.

The Statement should also help guide both current and aspiring HIAs, by providing a summary of the core responsibilities entailed in the role as well as the personal skills and professional standards necessary to succeed. It should therefore provide a focus for audit professionals' own personal development at all stages of their careers.



## **CIPFA Statement on the role of the Head of Internal Audit (HIA) in public service organisations**

**The Head of Internal Audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:**

- 1 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
- 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 organisation, 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 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.**

### **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. Responsibilities for good governance will vary across different organisations but the HIA must do more than report on the current arrangements. The concern should be to raise standards and this can be done by promoting the benefits of good governance as well as simply 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.

There are many ways to champion good governance across the organisation. The HIA needs to assess the state of the organisation's governance and what others with an interest are doing. They then need to clarify their role in promoting good governance and 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 organisation is part 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 organisation's and should help improve the effectiveness of public service delivery.

There can often be many agencies reviewing controls within organisations. 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. The resultant 'map' can also help in explaining to others how internal audit fits into the wider governance picture.

## **Advising on proposed developments**

HIAs must be asked to advise on the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks. HIAs must give their views on major new systems and proposed initiatives to help ensure risks are properly identified and evaluated and appropriate controls built in. They also need to review how the proposals fit with the organisation's strategic objectives. The HIA must be involved at the outset to ensure his/her advice 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 act as consultants, providing assurance 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 consultancy 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.

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

- Ensure that the HIA's 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, procedures and training.
- Ensure that the HIA is consulted on all proposed major projects, programmes and policy initiatives.

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

- Promoting the benefits of good governance throughout the organisation.
- Working with others in the organisation who have a responsibility for promoting good governance.
- Offering consultancy advice where it supports the HIA in forming their annual opinion and report; drawing up clear terms of reference for such assignments.
- Comparing the organisation's governance arrangements with others and making recommendations for improvement.
- Promoting the highest standards of ethics and standards across the organisation based on the principles of integrity, objectivity, competence and confidentiality.
- Giving advice to the Leadership Team and others on the control arrangements and risks relating to proposed policies, programmes and projects.
- Reviewing the arrangements relating to proposed major projects and programmes and major policy initiatives.

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

- Demonstrate the benefits of good governance for effective public service delivery and how the HIA can help.
- 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.
- Maintain an appropriate balance between the core aspects of the HIA role and the need to develop and retain a broader focus on the environment and stakeholder expectations and needs.

## \ 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.**

### **Objectivity**

The Leadership Team is responsible for the organisation 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 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.

Ideally, 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, audit planning and reporting arrangements for these areas must be explicitly agreed by the HIA's line manager.

The HIA must understand the organisation and develop strong and constructive working relationships with managers and non-executive directors/elected representatives, creating mutual respect and effective communication. Providing objective information and advice to non-executive directors, elected representatives and others requires an understanding of ethics and the wider public interest as well as diplomacy.

### **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

Sometimes the HIA will be asked to give assurances to partners on the organisation's own arrangements. In other cases the HIA will look to partners for assurance. They might also look to assurances from others, such as inspectors and internal consultants. Where the HIA is giving external assurance it is important that the terms of reference for the work are clear at the outset, together with any scope restrictions. The basis of the assurance, including the work that has been carried out should then be clear. Where the HIA is receiving assurance from others he/she must understand the basis for the assurance and its adequacy, and therefore whether the HIA needs to carry out any additional review work. In both circumstances the scope and purpose of assurances given and received should be agreed by the Audit Committee and set out in internal audit's terms of reference. A summary of assurances given and received 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 but both are concerned with the organisation'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.

## **Whole range of controls**

The Leadership Team need regular assurance that the organisation 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 organisation 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 assurance that Chief Executives have for their annual governance report. 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 coverage must be comprehensive and cover the whole system of control, so that the opinion is based on a picture of the whole organisation. The focus should be on drawing attention to significant concerns and what needs to be done. But the HIA must not avoid expressing concerns where they exist.

## **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 organisation's strategic objectives and how it plans to achieve these. The risks to not 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 organisation'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 organisation is at identifying key risks and taking appropriate action to militate against them and mitigate their effects.

The audit strategy must identify the priorities for internal audit based on an assessment of the key risks to the organisation 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 organisation.

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

- 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 (eg 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 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 governance report is reviewed but not prepared by the HIA.
- 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 internal audit's role within it.
- Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team.

- 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 organisation's control environment.
- Identifying both strengths and areas for improvement.
- Producing clear reports with focused recommendations with clear responsibilities assigned.
- Monitoring internal audit recommendations and following up where action is not taken.
- Working closely with others to ensure that all sources of evidence are 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 organisation'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 organisation's objectives.
- Reviewing the organisation's risk maturity (including the organisation's own assessment) and reflecting this in the strategy.
- Consulting stakeholders, including senior managers and non-executive directors/elected representatives on the internal audit strategy.
- Setting out how the HIA plans to rely on others for assurance on the organisation's controls and risks and taking account of any limitations in assurance given by others.
- Liaising with external inspectors and review agencies and taking account of their work 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 as find, 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) Chief Executive, Chief Legal Officer, Chief Financial Officer, Audit Committee, non-executive directors/elected representatives.
- 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 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.**

### **Senior manager**

HIAs face increasing challenges and higher expectations from stakeholders, especially in helping organisations 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>2</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 organisation, especially to the Chief Executive, Board and Audit Committee Chair. In practice this is most likely to be achieved by the HIA reporting to the Chief Executive or to the Chief Financial Officer.

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 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 client manager and others, including the Audit Committee, must be clearly set out as part of the organisation'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 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. Whilst it is not appropriate for the HIA to be a member of the Leadership Team it is vital that the HIA can attend key meetings where they consider it necessary. 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 report 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 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 the available resources.

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<sup>2</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="188 322 1401 450">▪ 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="188 483 1401 544">▪ Ensure that where the HIA is an employee that they are sufficiently senior within the organisation’s structure to allow them to carry out their role effectively.</li> <li data-bbox="188 577 1401 674">▪ 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="188 707 1185 741">▪ Establish an Audit Committee in line with guidance and good practice.</li> <li data-bbox="188 775 1182 808">▪ Set out the HIA’s relationship with the Audit Committee and its Chair.</li> <li data-bbox="188 842 1382 1128">▪ Ensure that the organisation’s governance arrangements allow the HIA: <ul style="list-style-type: none"> <li data-bbox="240 904 1238 938">– to bring influence to bear on material decisions reflecting governance;</li> <li data-bbox="240 972 1382 1032">– direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit; and</li> <li data-bbox="240 1066 1350 1128">– to attend meetings of the Leadership Team where the HIA considers this to be appropriate.</li> </ul> </li> <li data-bbox="188 1162 1382 1223">▪ 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="188 1256 1337 1317">▪ 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="188 1487 1401 1547">▪ Escalating any concerns through the line manager, Chief Executive, Audit Committee and Leadership Team, legal officers, external auditor as appropriate.</li> <li data-bbox="188 1581 1382 1641">▪ Supporting the Audit Committee in reviewing its own effectiveness and advising the Chair and line manager of any suggested improvements.</li> <li data-bbox="188 1675 1198 1736">▪ Consulting stakeholders, including senior managers and non-executive directors/elected representatives 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 public service organisation 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 public service organisations 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 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. 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 organisation and must be enough for the HIA to give a reliable opinion on the organisation's control environment. Responsibility for ensuring that an effective and appropriately resourced internal audit service is in place rests with the organisation. 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 minimum level of audit coverage and audit resources needed to give a sound, evidence based annual audit opinion. The HIA 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.

### **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 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 organisation's governance arrangements.

The HIA needs well developed, motivated staff to make an impact at senior levels in the organisation. This may include staff who are career internal auditors and staff who spend two or three years in internal audit then move to another job within the organisation and those who move in and out of internal audit. There may also be a need to buy in specialist skills which are not frequently used eg in HR or procurement. 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 and to be able to demonstrate this to others, so that staff's subsequent career progressions encourage 'high flyers' to spend time in internal audit.

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 organisation 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.
- 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.

**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 organisation 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 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 achievement against target.
  - 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 organisation.

**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 'no blame' 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 public service organisation 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 organisation. The HIA must be professionally qualified. In the UK, for example, 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 organisations. 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 organisation'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 organisation in its wider business objectives. To do this the HIA needs to look forward as well as at the organisation as it currently operates. The HIA must demonstrate leadership by personally setting a tone for the organisation that good governance, risk management and internal control matter to everyone in the organisation.

**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 public services internal audit and regulatory environment applicable to public service organisations.
- Demonstrate a comprehensive understanding of governance, risk management and internal control.
- Understand personal and professional strengths.
- Undertake appropriate development or obtain relevant experience as appropriate in order to demonstrate an understanding of the full range of the organisation's activities and processes.

## \ appendix

### **Membership of the CIPFA Steering Group on the Role of the Head of Internal Audit in public service organisations**

Mike More (Chair)	Westminster City Council
Anthony Barrett	Wales Audit Office
Chris Bowring	NHS Fife
Jackie Cain	Institute of Internal Auditors
Ian Carruthers	CIPFA
Mike Clarkson	Deloitte
Tim Crowley	Mersey Internal Audit Agency
Colin Langford	CIPFA
Paul Manning	Department for International Development
Justin Martin	PricewaterhouseCoopers LLP
Stephanie Mason	Baker Tilly
Jon Pittam	Hampshire County Council
Tim Pouncey	Leeds City Council
Duncan Savage	East Sussex County Council
Philip Winter	Tenant Services Authority
Chris Wobschall	HM Treasury
Clive Darracott (Secretary)	CIPFA
Diana Melville (Technical support)	CIPFA

[for final version - CIPFA is grateful to all the members of the Steering Group for their invaluable contributions. The statement was widely circulated for comment during its drafting and many individuals and organisations responded giving us additional insights into how the HIA operates in practice across the public services]