

Report to Audit Committee

Review of the Role of the Head of Internal Audit

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Services

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Reason for Decision

The CIPFA Statement on the Role of the Head of Internal Audit (HIA) was published on 9 April 2019. The Statement recommends how the role of the HIA should operate in practice, in order to deliver high quality Internal Audit leadership and it sets out how stakeholders across the organisation should engage with, and support, the HIA effectively. CIPFA highlights the important role of Internal Audit in supporting those objectives and considers that the HIA needs recognition for their contributions, together with support and encouragement.

The aim of this report is to summarise the outcome of a self-assessment of the arrangements at Oldham Council to determine whether the Council is implementing the recommended principles.

At Oldham Council the role of HIA is undertaken by the Head of Corporate Governance.

Recommendation

The Audit Committee notes the outcome of the self-assessment by the Head of Corporate Governance to the CIPFA statement on the Role of the Head of Internal Audit.

Review of the Role of the Head of Internal Audit**1 Background**

- 1.1 The Relevant Internal Audit Standard Setters (RIASS) dictate the Public Sector Internal Audit Standards (PSIAS) for their particular areas of responsibility. The RIASS is a group of public sector bodies which agree the standards to which Public Sector entities will be audited. The RIASS are as follows:
- HM Treasury for Central Government;
 - the Scottish Government, Welsh Government and Department of Finance (Northern Ireland) for devolved administrations;
 - the Department of Health for the health sector in England; and,
 - CIPFA for Local Government across the UK.
- 1.2 The PSIAS set out a statement to identify the leadership capabilities and technical knowledge organisations should expect from their Head of Internal Audit (HIA) and how organisations should support their HIA to meet the highest possible standards.
- 1.3 To this end, the CIPFA Statement on the Role of the HIA in Public Service organisations, published on 9 April 2019, outlines five principles that should be demonstrated to ensure Internal Audit effectiveness in Local Government and the Statement acts as a guideline for the expected links between CIPFA's Core Principles for the Professional Practice of Internal Auditing and the Role of the HIA.
- 1.4 The Statement helps to demonstrate how the HIA role supports Internal Audit effectiveness. It is intended to advise a wide audience; including leadership teams, Chief Executives, Audit Committees and other stakeholders as well as the HIA and forms a basis for a self-assessment process.
- 1.5 The five principles 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 blend in terms of:
- the organisation;
 - the role profile; and,
 - the individual.
- 1.6 The principles underpin the core activities and behaviours that are expected from the HIA and can be categorised into two types. The first two principles set out the *role of the individual*, and their skills and behaviours, and the latter three principles *describe the organisational support structure* to support the HIA.
- 1.7 The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:
- **Principle 1:** Objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control.
 - **Principle 2:** Championing best practice in governance and commenting on responses to emerging risks and proposed developments.
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To perform this role the Head of Internal Audit must:

- **Principle 3:** Be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the Audit Committee.
- **Principle 4:** Lead and direct an Internal Audit service that is resourced appropriately, sufficiently and effectively.
- **Principle 5:** Be professionally qualified and suitably experienced.

1.8 The five principles are supported by a suite of organisational, role based and individual supporting responsibilities that must be met; there are 79 supporting responsibilities in total.

2. **Oldham Council Self-Assessment**

2.1 The UK PSIAS set out the mission of Internal Audit which is to 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. The standards also set out Core Principles for the Professional Practice of Internal Auditing, which demonstrate Internal Audit effectiveness. The assessment of the role of the Head of Internal Audit therefore forms a key part of meeting the aims of the PSIAS.

2.2 At Oldham Council, the role of the HIA is performed by the Head of Corporate Governance. In order to conduct the self-assessment of Oldham Council, a monitoring checklist was produced to measure the compliance with the 79 responsibilities.

2.3 This monitoring checklist was created by reviewing the key responsibilities outlined in the CIPFA Statement, transferring these responsibilities into a spreadsheet which could be used to track compliance and gathering documentary evidence to support the conclusion on compliance. The documentary evidence included items such as; relevant excerpts from the Internal Audit Manual, the Internal Audit Charter and other key audit planning documents.

3 **Current Position**

3.1 The outcome of the review for each Principle is set out below and summarised in Appendix 1.

3.2 **Principle 1: Objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control.**

The following core principles are of particular relevance for Principle 1 of the CIPFA Statement:

- Provides risk-based assurance.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.

Appendix 1 concludes that, from the 18 responsibilities that underpin Principle 1, the organisation was assessed as meeting all 18.

3.3 Principle 2: Championing best practice in governance and commenting on responses to emerging risks and proposed developments.

The following core principles are of particular relevance for Principle 2 of the CIPFA Statement:

- Aligns with the strategies, objectives, and risks of the organisation.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

Appendix 1 concludes that, from the 15 responsibilities that underpin Principle 2, the organisation was assessed as meeting all 15.

3.4 Principle 3: Be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the Audit Committee.

The following core principles are of particular relevance for Principle 3 of the CIPFA Statement:

- Is objective and free from undue influence (independent).
- Is appropriately positioned and adequately resourced.

The self-assessment identified that one principle could be strengthened in order to demonstrate that it is being met. This was regarding the criteria: “Clearly set out the HIA’s responsibilities relating to organisational partners including collaborations and outsourced and shared services.” The acquisition of the Unity Partnership in July 2018 facilitated the requirement for this to be clarified.

Appendix 1 concludes that, from the 17 responsibilities that underpin Principle 3, the organisation was assessed as meeting 16 of the 17. Action will be taken to update appropriate documentation for responsibilities around third parties and partners.

3.5 Principle 4: Lead and direct an Internal Audit service that is resourced appropriately, sufficiently and effectively.

The following core principles are of particular relevance for Principle 4 of the CIPFA Statement:

- Demonstrates integrity.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.

Appendix 1 concludes that, from the 19 responsibilities that underpin Principle 4, the organisation was assessed as meeting all 19.

3.6 Principle 5: Be professionally qualified and suitably experienced.

The following core principles are of particular relevance for Principle 5 of the CIPFA Statement:

- Demonstrates competence and due professional care.
- Communicates effectively.

Appendix 1 concludes that, from the 10 responsibilities that underpin Principle 5, the organisation was assessed as meeting all 10.

4 **Conclusions**

- 4.1 In summary, the self-assessment has concluded that Oldham Council is highly compliant with the 2019 CIPFA Statement on the Role of the HIA. As per the self-assessment review by the HIA, the organisation meets all the responsibilities expected of the role in relation to the individuals' skills and competencies.
- 4.2 One action is required to refine the recording of the responsibilities around the assurance of third parties and partner organisations, and firm plans are in place to action this in 2019/20.

5 **Options/Alternatives**

- 5.1 The Audit Committee can either note this report in conjunction with the Annual Report and the Annual Governance Statement, which were reported to the Audit Committee on 6 June 2019, or choose not to do so.

6 **Preferred Option**

- 6.1 The preferred option is that the Audit Committee accepts and notes the self-assessment of the Role of the Head of Internal Audit at Oldham Council.

7 **Consultation**

- 7.1 N/A.

8 **Financial Implications**

- 8.1 N/A.

9 **Legal Services Comments**

- 9.1 N/A.

10 **Cooperative Agenda**

- 10.1 N/A.

11 **Human Resources Comments**

- 11.1 N/A.

12 **Risk Assessments**

- 12.1 Should the Audit Committee not consider a report reviewing the role the Head of Internal Audit on an annual basis then it could be maintained that it has not complied with the Public Sector Internal Audit Standards. (Jane Whyatt)

13 **IT Implications**

- 13.1 N/A.

14 **Property Implications**

- 14.1 N/A.
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15 **Procurement Implications**

15.1 N/A.

16 **Environmental and Health & Safety Implications**

16.1 N/A.

17 **Equality, community cohesion and crime implications**

17.1 N/A.

18 **Equality Impact Assessment Completed?**

18.1 None.

19 **Key Decision**

19.1 N/A.

20 **Forward Plan Reference**

20.1 N/A.

21 **Background Papers**

21.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are included at Appendix 1
Officer Name:	Jane Whyatt
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22 **Appendices**

22.1 **Appendix 1:** Oldham Council Self-Assessment of the CIPFA Statement on the Role of the Head of Internal Audit (HIA)

Appendix 1

Oldham Council Self-Assessment of the CIPFA Statement on the Role of the Head of Internal Audit (HIA)

Self-Assessment Key:

Y = Yes, full compliance; N = No, does not comply and P = Partial compliance

Principle	Expected Compliance	Y/N/P	Evidence/Comment
Principle 1 Description	The Head of Internal Audit (HIA) plays a critical role in delivering the organisation's strategic objectives by objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control.	Y	The Head of Corporate Governance provides quarterly Audit and Counter Fraud Progress Report directly to Audit Committee. Audit Committee minutes from its meeting of 7 March 2019 have been reviewed and evidenced.
Principle 1	The UK Public Sector Internal Audit Standards (PSIAS) set out the mission of internal audit which is to 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. They also set out Core Principles for the Professional Practice of Internal Auditing which, when taken as a whole, articulate internal audit effectiveness. The following core principles are of relevance for Principle 1 of the CIPFA Statement: <ul style="list-style-type: none"> Provides risk-based assurance. Is objective and free from undue influence (independent). Aligns with the strategies, objectives, and risks of the organisation. 		The self-assessment concludes that all 18 responsibilities have been met.
Principle 2 Description	The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance and commenting on responses to emerging risks and proposed developments.	Y	Internal Audit and Counter Fraud Team, Policies and Procedures Manual: <ul style="list-style-type: none"> Section 3.2 – Roles and Responsibilities, page 12. PSIAS: 1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing', page 58.

Principle	Expected Compliance	Y/N/P	Evidence/Comment
Principle 2	<p>The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 2 of the CIPFA Statement:</p> <ul style="list-style-type: none"> • Aligns with the strategies, objectives, and risks of the organisation. • Is insightful, proactive, and future-focused. • Promotes organisational improvement. 		The self-assessment concludes that all 15 responsibilities have been met.
Principle 3 Description	<p>The HIA must be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the Audit Committee.</p>	Y	<p>Internal Audit and Counter Fraud Team, Policies and Procedures Audit Manual:</p> <ul style="list-style-type: none"> • Section 1.5 The Role of the Audit Committee, page 6. • Section 3.2 Roles and Responsibilities, page 12. • Section 31. Consultancy Engagements, page 72.
Principle 3	<p>The UK Public Sector Internal Audit Standards set out core principles for the Professional Practice of Internal Auditing, which, when taken as a whole, articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 3 of the CIPFA Statement:</p> <ul style="list-style-type: none"> • Is objective and free from undue influence (independent). • Is appropriately positioned and adequately resourced. 		The self-assessment concludes that all 16 from 17 responsibilities have been met.
Principle 4 Description	<p>The HIA must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively.</p>	Y	<p>Internal Audit and Counter Fraud Team, Policies and Procedures Audit Manual:</p> <ul style="list-style-type: none"> • Section 2 UK Public Sector Internal Audit Standards, Internal Audit Charter and Ethics, page 7. • Section 3.2.1 Head of Corporate Governance, page 12.

Principle	Expected Compliance	Y/N/P	Evidence/Comment
Principle 4	<p>The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 4 of the CIPFA Statement:</p> <ul style="list-style-type: none"> • Demonstrates integrity. • Is appropriately positioned and adequately resourced. • Demonstrates quality and continuous improvement. 		The self-assessment concludes that all 19 responsibilities have been met.
Principle 5 Description	The HIA must be professionally qualified and suitably experienced.	Y	<p>Internal Audit and Counter Fraud Function, Policies and Procedures Audit Manual.</p> <ul style="list-style-type: none"> • Section 3.2 Roles and Responsibilities, page 12.
Principle 5	<p>The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 5 of the CIPFA Statement:</p> <ul style="list-style-type: none"> • Demonstrates competence and due professional care. • Communicates effectively. 		The self-assessment concludes that all 10 responsibilities have been met.